DOCUMENT RESUME

ED 434 563 HE 032 291

TITLE	Student Financial Aid Handbook, 1999-2000: Direct Loan and FFEL Programs Reference.
INSTITUTION	Office of Student Financial Assistance (ED), Washington, DC.
PUB DATE	1999-00-00
NOTE	141p.; For main handbook, see ED 431 376.
AVAILABLE FROM	For full text: <http://ifap.ed.gov>.
PUB TYPE	Guides - Non-Classroom (055) -- Reference Materials - General (130)
EDRS PRICE	MF01/PC06 Plus Postage.
DESCRIPTORS	College Graduates; Colleges; *Eligibility; Federal Aid; Federal Programs; Financial Aid Applicants; Loan Default; Loan Repayment; Need Analysis (Student Financial Aid); Postsecondary Education; *Program Administration; Student Financial Aid; Student Financial Aid Officers; *Student Loan Programs; Universities
IDENTIFIERS	*Family Education Loan Program; *Federal Direct Student Loan Program; Higher Education Act Amendments 1998; Loan Counseling

ABSTRACT

This guide is designed to provide student financial aid officers and other college administrators with an overview of the William D. Ford Federal Direct Loan and Federal Family Education Loan programs. Sections of the guide review recent changes to the programs encompassed in the Higher Education Act Amendments of 1998, as well as the guidelines for borrower and institutional eligibility, making loans, payments to borrowers, repayment, deferment and forbearance, loan discharge and forgiveness, delinquency and default, consolidation loans, default reduction measures, counseling students, and additional school requirements. Two appendixes provide directories of client account managers and guaranty agencies. (MDM)

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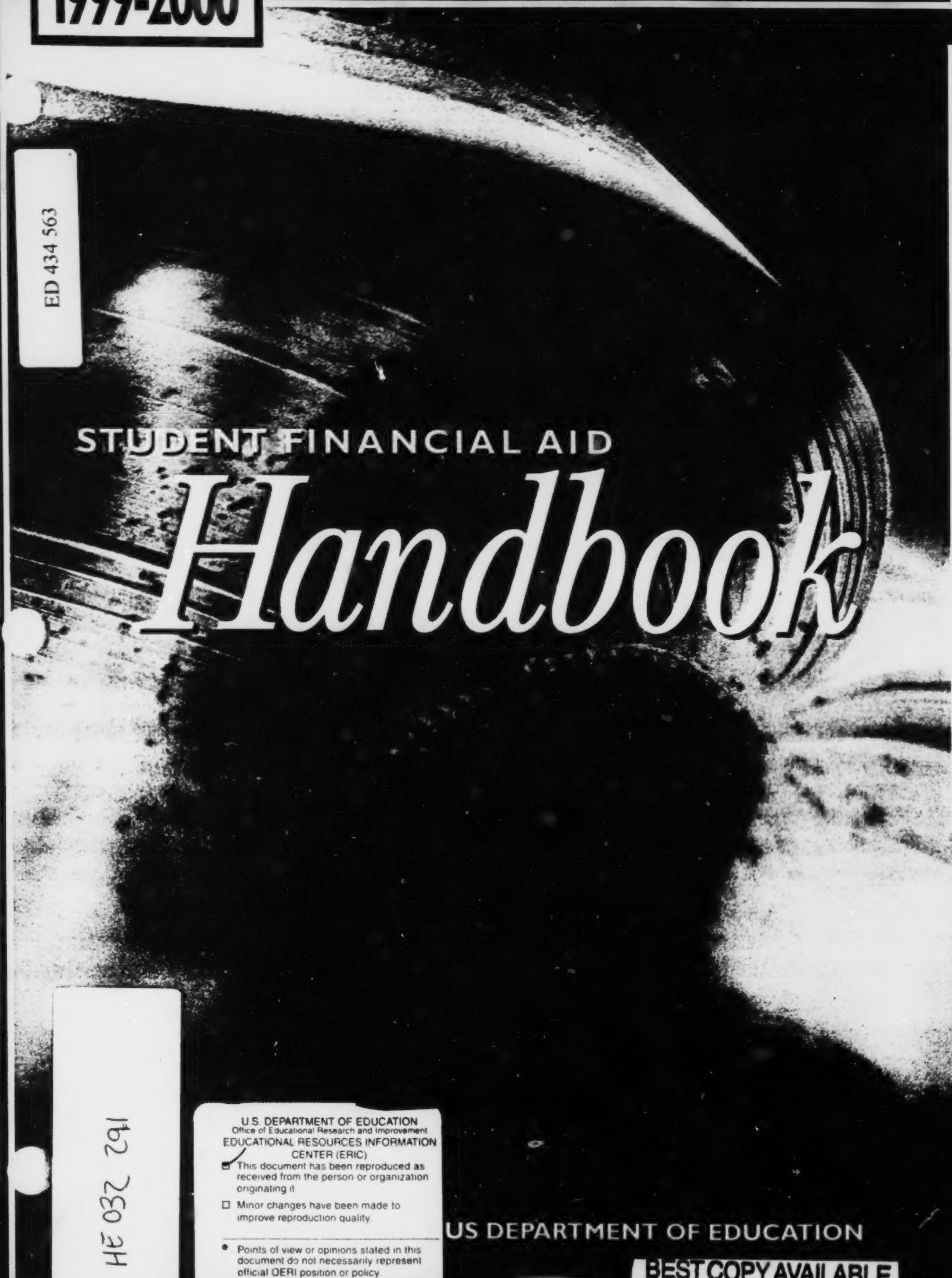
Direct Loan and FFEL Programs Reference



STUDENT FINANCIAL AID

Handbook

US DEPARTMENT OF EDUCATION

HE 032 291

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UNITED STATES DEPARTMENT OF EDUCATION
THE OFFICE OF STUDENT FINANCIAL ASSISTANCE
WASHINGTON, D.C. 20202-5132

July 1999

Summary: Cover letter for the *1999-2000 SFA Handbook: Direct Loan and FFEL Programs Reference*

Dear Colleague:

We are pleased to enclose the *Direct Loan and FFEL Programs Reference* of the *1999-2000 Student Financial Aid Handbook.* This reference combines information from the previous Chapter 10 and Chapter 11 of the *Handbook* into a single resource covering both the Direct Loan Program and the Federal Family Education Loan (FFEL) Program. The section describes elements that are common to both programs and also identifies differences between the programs.

As we stated in our letter transmitting the earlier sections of the *1999-2000 SFA Handbook*, we would like to hear your comments on the new structure of the *Handbook* as well as your suggestions for improvements. You can e-mail us at CSB@ed.gov (please put "Handbook Comments" in the "Subject" line of your message) or you can write to us at:

Training and Program Information Division
Office of Student Financial Assistance
ROB-3, Room 3013
7th and D Streets, SW
Washington, DC 20202

The enclosed *Direct Loan and FFEL Programs Reference* is currently available on the Information for Financial Aid Professionals (IFAP) web site (http://ifap.ed.gov). When the final section of the *Handbook*, the *Federal Pell Grant Program Reference*, becomes available it will also be posted on IFAP and distributed in paper format.

Sincerely,

William J. Ryan
Director
Training and Program Information Division
Student Aid Information Service

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Introduction

The SFA Handbook: Direct Loan and FFEL Programs Reference *covers both loan programs in detail, highlighting differences where they exist. The William D. Ford Federal Direct Loan (Direct Loan) Program and the Federal Family Education Loan (FFEL) Program both make long-term loans available to students attending institutions of higher education; vocational, technical, business, and trade schools; and, for FFELs only, some foreign schools.*

THE WILLIAM D. FORD FEDERAL DIRECT LOAN AND FEDERAL FAMILY EDUCATION LOAN PROGRAMS

Part B of Title IV of the Higher Education Act of 1965 (HEA), as amended, created the guaranteed student loan programs. The Higher Education Amendments of 1992 (P.L. 102-325) reauthorized the HEA and renamed the guaranteed student loan programs the FFEL Program, which now comprises Federal Stafford Loans (formerly Guaranteed Student Loans), Federal PLUS Loans, and Federal Consolidation Loans. The Student Loan Reform Act of 1993 authorized the Direct Loan Program, also under Title IV of the HEA. The Higher Education Amendments of 1998 (P.L. 105-244) reauthorized both the Direct Loan and FFEL Programs and changed some of the features of each program. Highlights of these changes can be found in the "Recent Changes" section on page 3.

Schools administer the Direct Loan and FFEL Programs similarly. The main difference between these federal student loan programs is the source of funds for borrowers. The federal government provides funds directly to borrowers in the Direct Loan Program; lenders, insured by guaranty agencies and reinsured by the federal government, provide funds to FFEL borrowers. The federal guaranty on these loans replaces the security (the collateral) usually required for long-term consumer loans.

Note that although all FFEL-related guaranty agency procedures and policies must accord with the federal requirements discussed in this chapter, **individual guaranty agencies may have additional procedures and policies**. To obtain specific information about a guaranty agency's policies and procedures, contact that agency. Appendix A of this chapter contains a list of guaranty agencies and their addresses and telephone numbers.

The following types of loans are available through both the Direct Loan and FFEL programs:

- **Federal Direct and FFEL Stafford Loans** are awarded to students who demonstrate financial need. Because the U.S. Department of Education (the Department) subsidizes the interest, borrowers are not charged interest while they are enrolled in school at least half time and during grace and deferment periods.

- **Federal Direct and FFEL Unsubsidized Stafford Loans** are awarded to students regardless of financial need. Borrowers are responsible for paying the interest that accrues during any period.

- **Federal Direct and FFEL PLUS Loans** allow parents to borrow on behalf of their dependent undergraduate children who are enrolled at least half time. As with Direct Unsubsidized Loans, borrowers are responsible for the interest that accrues on Direct and FFEL PLUS Loans during any period.

- **Federal Direct and Federal Consolidation Loans** allow any borrower to combine one or more federal education loans into a new Direct Loan or FFEL.

The different types of loans serve different purposes:

- Both undergraduate and graduate students can receive Stafford Loans.

- Parents of dependent students can receive PLUS Loans.

- Federal Consolidation Loans allow a borrower to combine several loans into one to facilitate repayment. The loans may be consolidated if the borrower meets certain conditions. (These conditions and the types of loans that may be consolidated are discussed in Chapter 5.)

Although a postsecondary school may participate in both the Direct Loan and FFEL programs simultaneously, a student or parent may **not** borrow from both programs for the student's attendance at the same school for the same enrollment period.

Basic borrower and institutional eligibility requirements under both programs are consistent with other Student Financial Assistance (SFA) programs. The next chapter discusses federal requirements and policies specific to the Direct Loan and FFEL Programs. *The SFA Handbook: Student Eligibility* covers student eligibility requirements. *The SFA Handbook: Institutional Eligibility and Participation* covers general institutional requirements.

In this reference, unless specifically referred to as a Direct Loan or an FFEL, the terms "Stafford Loans," "Consolidation Loans," "federal loans," and "PLUS Loans" refer to loans in both programs.

RECENT CHANGES

On October 7, 1998, President Clinton signed into law the Higher Education Amendments of 1998 (P.L. 105-244). In addition to reauthorizing the student financial assistance programs, this law made a number of changes to those programs. Many of the provisions went into effect on October 1 or October 7 of 1998. This reference also lists several loan program changes for the 1999-2000 award year that are unrelated to the Higher Education Amendments of 1998.

Amendments of 1998

Section 492 of the Higher Education Act requires the Department to obtain input from the financial aid community in the development of proposed regulations for the SFA programs. The Department is obtaining this input through regional meetings and through a process called "negotiated rulemaking."

In negotiated rulemaking, the Department meets with representatives of many areas of the financial aid community, such as students, schools, and guaranty agencies, to obtain advice and recommendations for effective implementation through regulation of SFA program requirements.

Most of the new statutory provisions of the Higher Education Amendments of 1998 are subject to the requirements of the negotiated rulemaking process. At the time this reference goes to print, the Department is in the middle of that process. As a result, guidance for implementation of these provisions of the Amendments of 1998 is under discussion and is not available for this publication. Interim guidance may be issued on the Department's *Information for Financial Aid Professionals* web site at http://ifap.ed.gov after these provisions are discussed further with the higher education community during the negotiated rulemaking process.

The Direct Loan and FFEL Program changes include:

- requiring Master Promissory Notes (see Chapter 2);
- interest rate changes for Stafford, PLUS, and Consolidation Loans (see Chapters 4 and 8);
- annual loan limit changes (see Chapter 2);
- new loan forgiveness programs (see Chapter 6);
- loan deferment, forbearance, and cancellation provision changes (see Chapters 5 and 6);
- modifying the definition of default (see Chapter 7); and

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- changes to the cohort default rate appeal process and loan disbursement exemptions for schools with low cohort default rates (see Chapter 9).

We are interested in hearing your comments or suggestions on ways to make the *SFA Handbook* more useful. Please send your comments to:

Development Section
Department of Education
ROB-3, Room 3013
7th and D Streets, SW
Washington, DC 20202

Borrower and Institutional Eligibility

CHAPTER 1

In general, a student must be enrolled at least half time as a regular student in an eligible program and must meet the school's satisfactory academic progress standards to be eligible for a Federal Stafford Loan or to benefit from a Federal PLUS Loan (that is, for his or her parents to receive a PLUS Loan). The SFA Handbook: Student Eligibility *covers in detail the student eligibility requirements that are common to all student financial assistance (SFA) programs.* The SFA Handbook: Institutional Eligibility and Participation *covers in detail the institutional eligibility requirements of the SFA programs. Only those borrower and institutional eligibility requirements that are specific to the William D. Ford Federal Direct Loan (Direct Loan) and Federal Family Education Loan (FFEL) programs are noted here.*

STUDENT ELIGIBILITY CRITERIA

To receive a Stafford Loan or to benefit from a PLUS Loan, a student must meet the general eligibility criteria for all SFA programs.

Coursework Necessary for Enrollment

There are three exceptions to the general SFA eligibility requirement that a student be enrolled or be accepted for enrollment in a degree or certificate program.

- An otherwise eligible student may apply for a Stafford Loan for a single consecutive 12-month period if the school has determined and documented that the coursework is necessary in order for the student to enroll in an undergraduate degree or certificate program and if the student is enrolled at least half time. This category of students may borrow at the first-year undergraduate loan level. Loan limits are explained in Chapter 2 of this reference.

- An otherwise eligible student may apply for a Stafford Loan for a single consecutive 12-month period if the school has determined and documented that the coursework is necessary in order for the student to enroll in a graduate or professional program and if the student is enrolled at least half time. This category of students may borrow at the fifth-year undergraduate loan level. The school must document that the coursework is needed before the student can be admitted into a degree or certificate program.

- A student enrolled at least half time in a program required by a state for teacher certification or recertification at the elementary or secondary level may apply for a Stafford Loan without being enrolled as a regular student. The school's records must indicate

Financial Need:

Cost of Attendance
- Expected Family Contribution
- Estimated Financial Assistance
= Financial Need

that the courses taken are required by the state where the student will be teaching. As noted previously, such students may borrow at the fifth-year undergraduate loan level.

Medical Internships and Residencies

A student is **ineligible** to receive a Stafford Loan or a Federal Perkins Loan (see the *SFA Handbook: Campus-Based Programs Reference*) while in a medical internship or residency program, unless the internship is part of the school's degree program. This restriction does **not** apply to students in dental internship programs.

As stated in the *SFA Handbook: Student Eligibility*, a student who owes a refund on an SFA grant or is in default on an SFA loan is ineligible for additional SFA funds. Note that the parents of such a student may not receive a PLUS Loan for the student's benefit.

FINANCIAL NEED

A **subsidized** student loan is one that qualifies for a federal interest subsidy during in-school status, grace periods, and authorized deferment periods. An **unsubsidized** student loan does not qualify for a federal interest subsidy. To qualify for a subsidized Stafford Loan, a student must have financial need. A borrower unable to qualify for a need-based Stafford Loan may apply for an unsubsidized Stafford Loan. Also, a student able to qualify for only a part of his or her subsidized Stafford Loan limit may apply for an unsubsidized Stafford Loan to cover the difference between his or her loan limit and the subsidized amount for which he or she is eligible. Basically, a student's need for a subsidized Federal Stafford Loan is his or her cost of attendance (COA) minus his or her Expected Family Contribution (EFC) minus his or her estimated financial assistance (EFA).

The EFC is calculated using financial information the student and his or her spouse or parents, as appropriate, provided on the *Free Application for Federal Student Aid* (FAFSA). The student's EFA is the amount of other aid he or she will receive for the enrollment period covered by the loan. See the *SFA Handbook: Student Eligibility* for more information on determining a student's financial need. Chapter 2 of this reference provides information on loan limits.

Amendments of 1998

The Higher Education Amendments of 1998 exclude Montgomery veterans' benefits and National Service Education Awards (Americorps) from the definition of EFA for purposes of determining eligibility for subsidized loans, beginning October 1, 1998. These benefits are included in the EFA, however, when determining eligibility for unsubsidized loans.

An unsubsidized Stafford Loan is not need-based, but it cannot exceed the student's cost of attendance less the total of EFA, which includes the borrower's subsidized Stafford Loan eligibility.

A student does not have to demonstrate financial need to benefit from a PLUS Loan his or her parents borrow.

Late PLUS Loan Disbursement Requirements Cite
34 CFR 668.164(g)(2)

Because an independent student's parents may not obtain a PLUS Loan on the student's behalf, an independent student has unsubsidized loan borrowing limits in addition to the subsidized limits. The student does not need to demonstrate financial need to receive this additional amount. See the *SFA Handbook: Student Eligibility* for information on determining dependency.

If, due to circumstances such as an adverse credit history (see page 9), a dependent undergraduate student's parents are unable to borrow a PLUS Loan, the school may allow the student to obtain an unsubsidized Stafford Loan under the independent student borrowing limits. Again, the student does not have to demonstrate financial need to receive this additional amount.

As explained in the *SFA Handbook: Student Eligibility*, because students who are members of certain religious organizations are considered to have no financial need for SFA program purposes, such students are not eligible for need-based SFA funds. They may, however, be eligible for unsubsidized Stafford Loans or unsubsidized Consolidation Loans, or, if dependent, for PLUS Loans. (PLUS Loans are also unsubsidized.)

A school that participates in the Federal Pell Grant Program must determine an undergraduate student's Pell Grant eligibility before certifying a subsidized or unsubsidized Stafford Loan for that student. If the student is eligible for a Pell Grant, the school cannot certify a loan until the student has applied for a Pell Grant for the same enrollment period that will be covered by the loan.

In addition, a school cannot certify an unsubsidized Stafford Loan for a student without first determining his or her need for a lower-cost subsidized Stafford Loan. If a student has need for a subsidized Stafford Loan of less than $200, a school can choose to certify only an unsubsidized Stafford Loan that includes the amount of the student's need, rather than certifying a subsidized loan of less than $200 and an unsubsidized loan for the remainder of the student's borrowing limit. Details on certifying loans are provided in Chapter 2 of this reference.

Generally, a school can certify a PLUS Loan for a parent **without** first determining the benefiting student's Pell Grant and subsidized Stafford Loan eligibility. In fact, calculation of a student's EFC is not required for making a PLUS Loan. There is one exception: A school cannot make a late disbursement of a PLUS Loan unless the school received a *Student Aid Report* (SAR) or an *Institutional Student Information Record* (ISIR) for the benefiting student before the date the student graduated, withdrew, was expelled, or dropped below half-time enrollment. The SAR or ISIR must contain an official EFC.

OFFSETTING A STUDENT'S EXPECTED FAMILY CONTRIBUTION (EFC)

Loans made on behalf of a student under PLUS, unsubsidized Stafford Loans, loans made by a school to assist the student, and state-sponsored and private education loans all can be used to offset (substitute for) part or all of the student's EFC for Stafford Loans and other need-based SFA programs.

The financial aid administrator may want to establish need for the subsidized Stafford Loan before other loans are figured into the aid package—and the financial aid administrator must do so in the case of unsubsidized Stafford and PLUS loans—to enable the student to receive the maximum subsidized Stafford Loan amount.

PARENT BORROWER ELIGIBILITY

CLARIFICATION

For the purpose of determining PLUS Loan eligibility, a parent is a student's natural mother or father, adoptive parent, or the spouse of a parent who has remarried, if that spouse's income and assets would be taken into account when calculating the dependent student's EFC. A legal guardian is not considered a parent for purposes of taking out a PLUS loan.

A parent may receive a PLUS Loan only to pay for the educational costs of a dependent undergraduate student who meets the eligible student definition. A parent may not borrow a Direct PLUS Loan and a Federal PLUS Loan on behalf of the same student for the same enrollment period at the same school.

A parent must meet the same citizenship and residency requirements as a student. Also, a parent who owes a refund on an SFA grant or is in default on an SFA loan is ineligible for a PLUS Loan. (Note that the parent's ineligibility for a PLUS Loan does not affect the student's eligibility for SFA funds.) See the *SFA Handbook: Student Eligibility* for more information on these general eligibility criteria.

Amendments of 1998

To receive a PLUS Loan, a parent must provide his or her Social Security Number as well as that of the student on whose behalf the parent is borrowing. Like a student borrower, a parent borrower must also submit a Statement of Educational Purpose. He or she does not, however, have to complete a Statement of Selective Service Registration. The Higher Education Amendments of 1998 provide that a parent who applies for a PLUS Loan on or after October 1, 1998 will be subject to verification of the parent's immigration status and Social Security Number. At the time this reference went to print, it was not known when this provision would take effect. Please continue to check the Information for Financial Aid Professionals (IFAP) web site at http://ifap.ed.gov for details about this provision.

A parent with an adverse credit history is prohibited from obtaining a PLUS Loan unless the parent meets additional criteria, discussed below. The U.S. Department of Education (for a Direct Loan) or a lender (for an FFEL) must obtain a credit report on each applicant for a loan from at least one national credit bureau. An applicant is considered to have an adverse credit history if

- he or she is 90 days or more delinquent on any debt; or
- during the 5 years preceding the date of the credit report, he or she has been determined to be in default on a debt, his or her debts have been discharged in bankruptcy, or he or she has been the subject of foreclosure, repossession, tax lien, wage garnishment, or write-off of an SFA debt.

Adverse Credit History

A lender is permitted to establish a more stringent definition of adverse credit history than these regulatory criteria. In addition, the Higher Education Amendments of 1998 permit the Secretary of the U.S. Department of Education (the Department), in consultation with guaranty agencies, lenders, and other organizations, to develop additional regulatory eligibility criteria for PLUS Loan borrowers. At the time this reference went to print, an effective date for this provision was not established. Please note that a parent cannot be rejected for a PLUS Loan on the basis of having no credit history. In other words, the absence of a credit history **cannot** be construed as an adverse credit history.

Amendments of 1998

A parent with an adverse credit history may instead secure an endorser without an adverse credit history in order to qualify for a PLUS Loan. The endorser for this purpose may not be the dependent student for whom the parent is borrowing. Instead of securing an endorser, a parent may instead appeal a determination of adverse credit history to the lender by documenting extenuating circumstances. The lender has the final decision on whether or not to make a loan to the parent.

The Bankruptcy Reform Act of 1994 (enacted October 22, 1994) prohibits a lender from discriminating, on the basis of past bankruptcy filing or discharge only, against a borrower applying for a student loan. However, past bankruptcy can be included as a factor in determining the future creditworthiness of a loan applicant. These provisions are also described in Chapter 6 of this reference.

The Higher Education Amendments of 1998 authorize the Secretary, in consultation with guaranty agencies, lenders, and other organizations, to develop regulatory eligibility criteria for PLUS Loan borrowers in addition to current adverse credit history requirements. Please continue to check IFAP for these criteria.

Amendments of 1998

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LENDER OF LAST RESORT

A student who is otherwise eligible for a subsidized Stafford Loan and, after not more than two rejections, has been unable to find a lender willing to make such a loan, should contact the guaranty agency in his or her state of residence or the guaranty agency in the state in which the student's school is located. The guaranty agency either must designate an eligible lender to serve as a lender of last resort (LLR) or must itself serve in that capacity and must respond to the student within 60 days. An LLR cannot make a loan that exceeds the borrower's need, nor is it required to make a loan for an amount less than $200. The LLR, as with any other lender, may refuse to make the loan if the borrower fails to meet the lender's credit standards. Each guaranty agency is required to develop rules and procedures for its LLR program. A list of state guaranty agencies can be found in the Appendix.

INSTITUTIONAL ELIGIBILITY

In order to participate in the Direct Loan and/or FFEL programs, a school must meet the SFA program eligibility criteria discussed in the *SFA Handbook: Institutional Eligibility and Participation.* Only institutional eligibility issues specific to the Direct Loan and FFEL programs are discussed here.

Only a school accredited as an institution of higher education offering a graduate-level program may certify Direct Loans or FFELs at the graduate level for students unconditionally accepted into a graduate or professional program. A school offering programs **exclusively** for study by correspondence is not eligible to participate in the Direct Loan and/or FFEL programs.

If a school is notified that it has lost its eligibility to participate in the Direct Loan and/or FFEL programs and the school does not intend to appeal the decision, it must immediately inform all current and **prospective** students of its loss of eligibility. The school must also explain that it can no longer certify Direct Loans and/or FFELs for students. If the school appeals its loss of eligibility within the required time frame, the school may continue certifying Direct Loans and/or FFELs during the appeal process. Once a final decision on the appeal is made, the school must take the appropriate action described in the Department's final appeal decision letter. (See Chapter 9 for more information about the appeal process.)

If a school loses eligibility or decides not to participate in Direct and/or FFEL programs, reinsurance of loans previously disbursed will not be affected, and interest subsidies will continue as long as each student maintains his or her required enrollment status. The student's grace period and eligibility for in-school status and in-school deferment also will not be affected by a school's loss of eligibility.

If a school plans to withdraw from participation in the Direct Loan and/or FFEL programs, it must provide the appropriate guaranty

Foreign Medical School Participation Cite
34 CFR 600.56(c)

agency or agencies (for FFEL schools) and the Department (for schools with either loan program) with written notification of its decision. Once the effective date of withdrawal has been established, the school is prohibited from delivering to a student any loan proceeds (with one exception, discussed in the following paragraph) received from a lender, and must return the loan proceeds to the lender within 30 days. To find out more about the procedures required for withdrawal from the Direct Loan Program, call 202/708-9951. To find out more about the procedures required for withdrawal from the FFEL Program, call 202/205-0183.

Note that if the first disbursement of a Federal Stafford Loan was delivered to the student or credited to the student's account prior to the school's loss of eligibility or withdrawal from participation, the school may deliver subsequent disbursements of that Federal Stafford Loan to satisfy any unpaid commitment made to a student for the period of enrollment for which the Stafford Loan was made. However, if a school loses eligibility before it delivers any loan proceeds to the student, the school is not permitted to deliver the loan proceeds to the student. (See Chapter 10 of this reference for information about how excessive default rates affect school eligibility.)

If a foreign medical school loses eligibility to participate in the FFEL Program, its students who were continuously enrolled at the institution before the loss of eligibility may receive FFELs through the next academic year.

If a school has never participated in the SFA programs but wants to be considered an eligible school for deferment purposes only, the school must prove that it meets the Department's definition of an eligible school before the school may certify borrower deferment forms. To find out more about eligibility for deferment purposes, write to the following address:

U.S. Department of Education
Initial Participation Branch, Room 3915
400 Maryland Avenue, SW
Washington, DC 20202-5244

Applications to request deferment approval should be sent to:

U.S. Department of Education
Institutional Participation and Oversight Service
P.O. Box 44805
L'Enfant Plaza Station
Washington, DC 20202-4805

Making Loans

CHAPTER 2

Under the William D. Ford Federal Direct Loan (Direct Loan) Program, the U.S. Department of Education (the Department) acts as both the lender and guarantor of loans. Schools make loans to students who then directly repay the Department. The Federal Family Education Loan (FFEL) Program is administered similarly, but with lenders, insured by guaranty agencies, providing funds to borrowers. Master Promissory Notes (MPNs), required by the Higher Education Amendments of 1998, are expected to streamline the loan application process for both programs by taking the place of both loan applications and promissory notes.

THE LOAN APPLICATION

To receive a Federal Stafford Loan, a student must complete a *Free Application for Federal Student Aid* (FAFSA) and a promissory note or a loan application. A student may obtain a promissory note or loan application from a guaranty agency, lender, or school that participates in the Direct Loan or FFEL Program.

Amendments of 1998

The Higher Education Amendments of 1998 introduced the requirement of MPNs to apply for Stafford Loans. MPNs will replace the Common Stafford Application/Promissory Note forms approved by the Department previously used to apply for FFELs and the promissory notes previously used to apply for Direct Loans.

Beginning with the 1999-2000 academic year, Direct Loan schools must use MPNs for Direct Subsidized and Unsubsidized Loans. More information about the use of MPNs in the Direct Loan Program can be found on page 18, and in "Dear Colleague" Letter GEN-99-08. Please continue to check the *Information for Financial Aid Professionals* (IFAP) web page for additional details (http://ifap.ed.gov).

For the 1999-2000 academic year, students attending schools participating in the FFEL Program may use either MPNs or Common Stafford Application/Promissory Notes. FFEL schools must use MPNs for all FFELs during the 2000-2001 academic year for loan periods beginning on or after July 1, 2000 and for any loan certified after July 1, 2000, regardless of the loan period. "Dear Colleague" Letters GEN-99-09 and GEN-98-25 provide sample MPNs and more detail about using MPNs in the FFEL Program. Please continue to check IFAP for details (http://ifap.ed.gov).

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To receive a Federal PLUS Loan, a student's parent(s) must complete a PLUS Loan application. MPNs will not be used for Direct or FFEL PLUS Loans during the 1999-2000 academic year. The student benefiting from a PLUS Loan must complete a portion of the application, but is not required to complete a FAFSA unless applying for additional aid under the student financial assistance (SFA) or other nonfederal programs, or unless a late disbursement will be made (see pages 38 and 39).

Applications/promissory notes that a school receives may or may not have a guaranty agency's name in the upper right corner. Even if a guaranty agency's name appears in the upper right corner of the form the student uses, another guaranty agency may process the form and insure the loan.

If a guaranty agency uses the Common Stafford Application/Promissory Note as part of a renewal application process, borrower information and a prior lender's name and code number may be preprinted on the form.

A guaranty agency may use an electronic application process. If the agency chooses to do so, it must require that the borrower complete the common loan application data elements that the agency did not receive from the FAFSA. The guaranty agency must also provide the borrower with a promissory note and notification of the borrower's rights and responsibilities.

Schools should direct any questions about the Common Stafford Application/Promissory Note or electronic application process to the guaranty agency or particular agencies with which they work.

If a student is unable to find a lender willing to make an FFEL, he or she should contact the guaranty agency that serves his or her state of residence for assistance in finding a lender of last resort (LLR). See Chapter One for more information about the LLR.

The MPN contains a section to be filled out by the borrower, a loan certification form for schools to submit if they do not transmit the information electronically, and, for FFELs only, sections to be completed by the lender. The Common Stafford Application/Promissory Note comprises three sections: one to be filled out by the borrower, one to be filled out by the school, and one to be filled out by the lender. A PLUS Loan application has these three sections and a section that requires the student who is benefiting from the loan to provide information.

Required Borrower Information

Some of the information a borrower must provide on the Common Stafford Application/Promissory Note or the MPN are his or her name, address, date of birth, Social Security Number, and driver's license number, as well as two personal references. The borrower may provide the name of his or her preferred lender. The law gives a borrower a choice of a lender. The borrower must read and sign the Common Stafford Application/Promissory Note or MPN. If the borrower previously borrowed from a particular agency or the agency uses electronic application processing, some of this information may be preprinted on the application.

Required School Information

For FFELs certified before October 1, 1998, the school must provide the student's cost of attendance (COA), Expected Family Contribution (EFC), and estimated financial assistance (EFA). The school must also determine the loan period. For FFELs certified after October 1, 1998, schools will still be required to calculate a student's COA, EFC, and EFA, and keep the information in the student's file, but they will no longer report these figures to the lender when certifying an FFEL.

Amendments of 1998

The EFC appears on the Student Aid Report (SAR) that the student receives after completing and submitting a FAFSA for processing. The financial aid administrator is expected to confirm the student's dependency status and Social Security Number. **The school, not the lender, determines the student's or parent's eligibility for a Stafford or PLUS Loan**. (An eligible foreign school is also responsible for determining eligibility, although such a school generally contracts with a guaranty agency or a consultant for assistance.) *The SFA Handbook: Student Eligibility* provides information on the EFC and on determining a student's dependency status and COA.

Required Lender Information (FFEL only)

The lender reviews the Common Stafford (or PLUS Loan) Application/Promissory Note and completes the lender portion of the loan application.

A lender is prohibited from discriminating against an applicant on the basis of race, national origin, religion, sex, marital status, age, or disabled status. However, a lender may decline to make loans to students who do not meet the lender's credit standards or to students at a particular school because of the school's default rate, or to students enrolled in a particular program of study. A lender may decline to make FFELs for less than a specified amount; for example, a lender could refuse to make a loan for less than $500.

A lender may not approve a loan for more than the least of the following amounts:

- the amount the borrower requests
- the student's unmet financial need (in the case of a subsidized loan)
- the student's COA
- the borrower's maximum borrowing limit (explained later in this section)

A lender must receive guaranty agency approval for an FFEL in order for the lender to disburse the loan and, if applicable, be eligible for payment of federal interest benefits. A lender or guaranty agency may not make or guarantee a Stafford Loan or PLUS Loan until it reviews its records and finds no indication that the borrower (and the student, if the loan is a PLUS) is in default on an SFA loan made for attendance at **any** school or owes a refund on an SFA grant received at **any** school. Once guaranty agency approval is obtained, the lender will send the Stafford Loan proceeds (or the first disbursement of the proceeds) to the school's financial aid office for delivery to the student; or the lender will send the proceeds directly to the student if he or she is enrolled in a foreign school. For a PLUS, loan proceeds are sent in at least two disbursements to the school by EFT or by a check made copayable to the school and the parent borrower. See Section 3 for more information on loan disbursement.

CERTIFYING AN FFEL APPLICATION

After completing the school's portion of a Common Stafford Application/Promissory Note or an MPN, a financial aid administrator must certify that the information he or she provided is correct and that the information the student and/or parent provided is accurate to the best of the financial aid administrator's knowledge. The school must keep one copy of the common application or the MPN on file. The student (or the school on behalf of the student) sends the other copies of the application to the lender or guaranty agency along with the common application or MPN, if included. The date of loan certification is the date the school official signs the common application or MPN and submits it to the lender or agency—unless the school uses another means of documenting the date it submits the application.

During the loan application process, it is the financial aid administrator's responsibility to determine whether a student previously attended an eligible school and to obtain the proper information. A financial aid administrator must request a financial aid transcript (FAT) from each eligible school a student previously attended or must use the National Student Loan Data System (NSLDS) to obtain the student's previous financial aid information. The financial aid administrator may certify an FFEL application (but is not required to do so) before receipt of any or all of a student's FATs but must not deliver loan proceeds to the student until the school obtains the student's complete financial aid history. In the case of a PLUS Loan, the financial aid administrator must not certify the application until the school obtains the student's complete financial aid history.

A financial aid administrator may refuse to certify an otherwise eligible FFEL borrower's loan application if the reason for the refusal is documented and provided in writing to the student. Similarly, the financial aid administrator may certify a loan for an amount less than that for which the student would otherwise be eligible if reasons for doing so are documented and explained to the student in writing.

Before certifying a Stafford Loan, the financial aid administrator must

- certify that the loan disbursement schedule provided with the application meets the disbursement requirements for Stafford Loans (see Chapter 3 for more information) and
- prorate Stafford Loans for programs of study that are shorter than an academic year and for programs in which the remaining period of study is less than an academic year in length.

A school may not certify a Stafford Loan or PLUS Loan application until the following requirements are also met:

- The school has determined the student's dependency status, enrollment status, and satisfactory academic progress.
- A student (or both the student and parent in the case of a PLUS Loan) certifies that he or she is not in default on any SFA loan and does not owe a refund on any SFA grant or scholarship.
- The school determines the student's Pell Grant eligibility (for Stafford Loan applicants), and if eligible, the student has applied for the grant.
- The school reviews its academic and financial aid records, verifies the information that the borrower (and the student, in the case of a PLUS Loan) certified concerning previous loans or grants, and determines that the total loan or loans certified for the period of enrollment will not cause the borrower to exceed annual or aggregate loan limits. The school must also ensure that
  - for subsidized Stafford Loans, the loan amount or amounts will not exceed the student's financial need as determined by an approved need analysis system; and
  - for unsubsidized Stafford Loans or PLUS loans, the loan amount or amounts will not exceed the difference between the student's COA and his or her EFA.

A financial aid administrator should be aware of the responsibility incurred in certifying an MPN or Common Stafford Application/ Promissory Note. If the financial aid administrator certifies a loan for an ineligible student, the school will be responsible for purchasing the loan and for reimbursing the Department for all interest and special allowance paid on behalf of the borrower.

A school may not certify a loan for more than the least of the following amounts:

- the amount the borrower requests;

- the student's unmet financial need (in the case of a subsidized loan);
- the student's COA; and
- the borrower's maximum borrowing limit (explained later in this chapter).

If a subsidized Stafford Loan applicant has been selected for verification, a school may refuse to certify the Stafford Loan application until verification has been completed, or the school may certify the application if there is no information which conflicts with that provided by the applicant. A school that chooses to certify the application may not deliver the loan proceeds to the borrower until verification has been completed.

ORIGINATING A DIRECT LOAN

Direct Loans are originated by schools. The remainder of the loan process is handled either by schools or by the Loan Origination Center (LOC), depending on a school's origination level. The *Direct Loan School Guide* contains detailed instructions about the requirements and procedures necessary to administer the Direct Loan Program, so that information will not be duplicated here.

For a Direct Loan school that has been approved to print its own promissory notes, the school must create a loan origination record and send it to the LOC for acceptance. In response, the LOC returns a loan origination acknowledgment to the school and simultaneously mails a separate Disclosure Statement to the student. The Disclosure Statement provides specific information about loan types, amounts, and anticipated disbursement dates to the student. This is a new step in the loan origination process. The school then prepares the MPN using information on the completed loan origination record, has the student sign it, and submits it to the LOC. Once the LOC processes the MPN, it sends the school a promissory note acknowledgment.

The administrative process for schools that do not print their own promissory notes has not changed. Please consult "Dear Colleague" Letter GEN-99-08 for greater detail on the MPN process for Direct Loan schools.

DETERMINING THE LOAN PERIOD

The period of enrollment or loan period to which the application refers is the period for which the Stafford Loan is intended. This period must coincide with one or more of a school's academic terms (such as academic year, semester, trimester, quarter or nonstandard term) for schools that use terms. Loan periods for schools that do not use terms are generally based on the length of the program or academic year. The COA, EFA, and EFC must all relate to the loan period.

The **minimum** period for which a school that measures academic progress in credit hours and uses terms may certify a loan is a single academic term. For a clock-hour school or a credit-hour school that does not use terms, the **minimum** period for which the school may certify a loan is the shortest of the following three periods:

- the academic year as defined by the school in accordance with the Department of Education's General Provisions regulations;
- the length of the student's program at the school; or
- the remaining portion of the student's program that exceeds the school's academic year.

The **maximum** loan period is generally the school's academic year but cannot exceed a 12-month period.

If a summer session overlaps two award years (that is, it begins before July 1 and ends on or after July 1), the financial aid administrator has the discretion to decide to which of the two award years the loan period will apply. This is the **only** case in which a financial aid administrator has such discretion. If a student in a summer school session that overlaps two award years is also receiving campus-based aid (a Federal Perkins Loan, a Federal Supplemental Educational Opportunity Grant [FSEOG], or Federal Work-Study [FWS]), both the Stafford Loan and the campus-based aid must apply to the same award year.

If a student's loan is certified after the beginning of an enrollment period, the loan may retroactively cover the entire period of enrollment, as long as that period of enrollment does not exceed the maximum loan period allowed.

If a school charges tuition and fees to a student at the beginning of a program that is longer than an academic year, the COA for the Stafford Loan Program should include the full amount of the tuition and fees charged in the **period of enrollment** in which the loan is made.

The amount of a student's subsidized Stafford Loan depends on his or her financial need and borrowing limit. The amount of an unsubsidized Stafford Loan depends on the student's COA, EFA, and borrowing limits. See Chapter 1 of this reference for information on financial need. Loan limits are discussed later in this section. The *SFA Handbook: Student Eligibility* provides detailed information on COA and EFA. The amount of a parent's PLUS Loan depends on the benefiting student's COA. See Chapter 1 of this reference for further information.

Determining the Loan Period Example 1

LuPone Academy's academic term begins on September 6 and runs through December 20. A student who is admitted to a program contingent on the receipt of an acceptable academic transcript from a previous school begins the academic term on September 6. LuPone receives the transcript on October 15. LuPone may certify the loan for the full period of enrollment (September 6 through December 20). If the student plans to enroll for the subsequent term and that term is part of the same academic year as the first term, LuPone may certify the loan to cover the period from September 6 to the end of the second term.

Determining the Loan Period Example 2

The Springfield Academy has a 1,350-clock-hour program, defines its academic year as 900 clock hours, and charges each student the full $3,000 in tuition and fees at the beginning of the program. An enrolling student may receive two Federal Stafford Loans during the program (provided all eligibility criteria are met) because the program exceeds one academic year. The tuition and fees component of the COA for the first Stafford Loan is $3,000; there is no tuition and fees component in the COA for the second Stafford Loan. The second Stafford Loan must be prorated because the remainder of the program (450 hours) is shorter than the school's academic year.

Preventing Overawards When Aid Will Exceed Need

An overaward is an award in excess of need that occurs when the financial aid administrator learns of additional financial assistance *(such as a grant or scholarship) available to the student for the same* period of enrollment **after** a school determines EFA and receives Stafford Loan funds. See page 40 for more information on handling potential Stafford Loan overawards that are identified after FFEL funds are received.

If, after the loan has been certified but before the school receives the loan proceeds, the school becomes aware of additional financial assistance that could result in the student's aid package exceeding his or her need, the school must eliminate the overaward. The school must do this by requesting that the lender cancel or reduce the Stafford Loan or by canceling or reducing aid over which it has control, such as institutional or campus-based aid, instead of (or in addition to) canceling or reducing the Stafford Loan amount. A $300 overaward tolerance is permitted if the student's financial aid package includes a Stafford Loan plus Federal Work-Study (FWS). If there is no FWS in the student's financial aid package, no tolerance is allowed under FFEL. See the *SFA Handbook: Campus-Based Programs Reference* for more information on this tolerance.

ANNUAL LOAN LIMITS

Dependent Undergraduate Student Loans

A dependent undergraduate student who has not yet completed the first year of an undergraduate program may borrow combined subsidized and unsubsidized loans not to exceed an annual total of up to $2,625 per academic year of study for a program that is at least an academic year in length. A loan for a student enrolled in a program of study that is less than an academic year in length is required to be prorated proportionally.

Amendments of 1998

Loans for programs of less than an academic year disbursed before October 1, 1998 had fixed limits depending on the program's length. The Higher Education Amendments of 1998 eliminated these fixed prorated loan limits. They are provided here for informational purposes, however.

For loans disbursed before October 1, 1998, a dependent undergraduate student who had not yet completed the first year of an undergraduate program could borrow combined subsidized and unsubsidized loans not to exceed an annual total of

- up to $1,750 per academic year of study for a program that was at least two-thirds of an academic year but less than a full year;
- up to $875 per academic year of study for a program that was at least one-third but less than two-thirds of an academic year.

Amendments of 1998

For loans disbursed on or after October 1, 1998, a dependent undergraduate student who has completed the first year of study but has not completed the remainder of the program may borrow up to $3,500 per academic year of study for a program that is at least an academic year in length.

A dependent undergraduate student who has completed the first and second years of study but has not completed the remainder of the program may borrow up to $5,500 per academic year of study for a program that is at least an academic year in length.

A dependent undergraduate student who has an associate or baccalaureate degree that is required for admission into his or her current program may borrow up to $5,500 per academic year of study for a program that is at least an academic year in length.

Amendments of 1998

Note that the Higher Education Amendments of 1998 provide that interest capitalized on unsubsidized Stafford Loans shall not be counted in determining whether a borrower has exceeded annual (or aggregate) loan amounts.

A loan for a borrower at any level of study must be prorated, as discussed on page 23, when

- a program is less than an academic year in length or
- a program is more than an academic year and the remaining portion of the program is less than an academic year in length.

These loan limits represent the total of all subsidized and unsubsidized Stafford Loans a dependent undergraduate student may borrow at each level of study. A dependent undergraduate student who takes out both subsidized and unsubsidized Stafford Loans must not exceed the annual and aggregate limits allowed under the Stafford Loan Program. An unsubsidized Stafford Loan amount, subject to the loan limits described above, is the difference between the borrower's COA for the loan period and the borrower's EFA (including any subsidized Stafford Loan amount he or she will receive).

Dependent Undergraduate Student Example

Jen, a first-year dependent student at Reid State U., applies for a Stafford Loan to attend a term beginning in September 1999. Her COA is $12,000, and, based on her need, she qualifies for a subsidized Stafford Loan of $2,000. She may also apply for an unsubsidized Stafford Loan of $625, which is the difference between the maximum Stafford Loan allowed ($2,625) and the amount of her subsidized Stafford Loan ($2,000). Her parents may borrow a PLUS Loan to cover the remainder of the COA.

Independent Undergraduate Student Loans

This section explains loan limits for unsubsidized Stafford Loans made to independent undergraduate students (or to dependent students whose parents are unable to borrow PLUS Loans due to exceptional circumstances such as adverse credit histories). **The following unsubsidized Stafford Loan limits may be added to the borrower's subsidized Stafford Loan limits**.

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Amendments of 1998

Independent undergraduate students (or dependent students as described in the preceding paragraph) whose loans are disbursed on or after October 1, 1998, may borrow up to $4,000 for a program of study at least an academic year in length. A loan for a student enrolled in a program of study that is less than an academic year in length is required to be prorated proportionally.

Amendments of 1998

Again, the Higher Education Amendments of 1998 eliminated fixed prorated loan limits. They are provided here for informational purposes, however. For loans disbursed before October 1, 1998, an independent student who had not completed the first two years of undergraduate study could borrow

- up to $2,500 for a program at least two-thirds of an academic year but less than a full year;
- up to $1,500 for a program at least one-third of an academic year but less than two-thirds of an academic year.

Amendments of 1998

For loans disbursed on or after October 1, 1998 an independent undergraduate student who has completed the first and second years but who has not completed the remainder of the program may borrow up to an additional $5,000 for a program of study at least an academic year in length. The loan must be prorated for programs less than an academic year in length or for programs more than an academic year when the remaining portion of the program in excess of an academic year is less than an academic year in length.

Independent Undergraduate Student Example

Dottie is a first-year independent undergraduate student at Ferrar's Institute. Her COA is $9,500. Dottie qualifies for a subsidized Stafford Loan of $1,500. She may apply for an unsubsidized Stafford Loan of $5,125 ($1,125 remaining under her initial Stafford Loan limit, plus a $4,000 unsubsidized Stafford Loan). Her total loan limit for her subsidized Stafford Loan and her unsubsidized Stafford Loan is $6,625

An independent undergraduate student who has an associate or baccalaureate degree that is required for admission into his or her current program may borrow up to an additional $5,000 per academic year of study for a program that is at least an academic year in length.

A student's academic year level for loan limit purposes is set according to the school's standards for the time normally required to complete a given grade level. However, if the school determines a program normally can be completed in two years of full-time study, a student in that program can never receive more than the second-year annual loan limit of $3,500 in any given year, no matter how long it takes the student to finish.

Graduate and Professional Student Loans

The subsidized loan limit for a graduate or professional student is $8,500 per academic year. The additional unsubsidized loan limit for graduate or professional students is $10,000 per academic year.

Students enrolled in teacher certification or recertification programs are considered the same as fifth-year undergraduate students for the purpose of determining annual loan limits.

Loans for Coursework Required for Teacher Certification/Other Programs

Amendments of 1998

The Higher Education Amendments of 1998 established loan limits for coursework required to enroll in an undergraduate or graduate program and for post-baccalaureate coursework necessary for a professional credential or teacher certification.

For subsidized Stafford Loans, an annual loan limit of $2,625 is set for coursework necessary for enrollment in an undergraduate degree or certificate program. For unsubsidized loans, an annual limit of $4,000 is established.

For students with baccalaureate degrees, the annual subsidized loan limit for coursework necessary for enrollment in a graduate or professional program is $5,500. These students may also borrow up to an additional $5,000 in unsubsidized Stafford Loans.

There is a loan limit of $5,500 for students completing coursework necessary for a professional credential or teacher certification. These students may also borrow up to an additional $5,000 in unsubsidized Stafford Loans.

Federal PLUS Loans

A PLUS Loan may not exceed the student's estimated COA minus other financial aid awarded during the period of enrollment. This is the only borrowing limit for PLUS Loans.

PRORATED ANNUAL LOAN LIMITS—SUBSIDIZED AND UNSUBSIDIZED STAFFORD LOANS

Generally, a dependent or independent undergraduate may borrow up to the annual limit applicable to the student's year in school. However, the maximum amount an undergraduate student may borrow must be reduced, or prorated, in certain situations. As a result of the Higher Education Amendments of 1998, loans are prorated proportionally only; that is, there is no more fixed proration.

Note that PLUS Loans and loans for graduate or professional students are not subject to proration.

Loans must be prorated when a student is enrolled

- in a program containing fewer weeks, clock hours, or credit hours than the statutory minimum academic year; or
- in a program that is longer than an academic year, but the final period of study is shorter than an academic year.

Prior to the enactment of the Higher Education Amendments of 1998, schools used fixed proration when students were enrolled in programs containing fewer weeks, clock hours, or credit hours than the statutory minimum academic year. The *SFA Handbook: Institutional Eligibility and Participation* contains extensive information about academic year requirements. Briefly, an academic year must contain **at least** 30 weeks of instructional time (the Department may waive this requirement for some programs fewer than 30 weeks) **and** 24 semester or trimester hours, 36 quarter hours, or 900 clock hours. Effective October 1, 1998, schools must use proportional proration for loans for students enrolled in programs less than an academic year in length.

Amendments of 1998

Prorated Loan Example

O'Donnell Institute has an academic year that consists of three quarters: fall, winter, and spring. Rosie will be enrolling in the fall and spring quarters, but not the winter quarter, and will graduate at the end of the spring quarter. Because the fall quarter is in the same academic year as Rosie's final quarter, it is part of the final period of study, even though there is a term between the final quarter and the fall quarter in which she will not enroll. Because the fall quarter is part of the final period of study, the loan Rosie receives in the fall must be prorated, just as her spring loan must be prorated.

Schools must prorate a student's loan if the final period of study is shorter than an academic year. A final period of study is one at the end of which a student will complete a program. At a **term-based credit hour** school (where the academic year is measured in semesters, trimesters, quarters, or other terms), a final period of study is considered shorter than an academic year if the final period consists of fewer terms than the school's scheduled academic year. At a **term-based clock hour** school (where the academic year is measured in semesters, trimesters, quarters, or other terms), a final period of study is considered shorter than an academic year if the final period consists of fewer terms than the school's scheduled academic year **or** fewer clock hours than the minimum statutory requirements for a full academic year. Terms within the same academic year as the student's final term are considered part of the final period of study, even if separated from the final term by a term in which the student is not enrolled.

At a **nonterm** school (where programs are measured only in clock or credit hours), a final period of study is considered less than an academic year if the final period consists of fewer clock or credit hours than the minimum statutory requirements for a full academic year.

To prorate the loan for a program that exceeds an academic year but has a final period of study less than a full academic year in length, schools must calculate what proportion of a full academic year the final period of study represents. The loan amount is then prorated on that basis.

If a student drops or adds a course after the school has originated a prorated loan, the school **may** readjust the loan amount but is not required to do so. Of course, a student who drops courses must still be enrolled **at least half time** to be eligible for any loan amount.

TYPE OF ACADEMIC YEAR AND FREQUENCY OF ANNUAL LOAN LIMITS

The annual limit for Stafford Loans limits how much a student can borrow in a single academic year. Once the student has reached the annual loan limit, he or she cannot receive another Stafford Loan until he or she begins another academic year. There are two types of academic years a school can use in determining when another year will begin for the student: a scheduled academic year (SAY) or a borrower-based academic year (BBAY). Only term-based credit-hour programs can use SAYs. However, clock-hour and nonterm credit-hour programs must use BBAYs. If a program at a term-based credit-hour school contains fewer than 30 weeks of instructional time in a year (unless the Department grants a waiver for an academic year of less than 30 weeks), the school must use only SAYs for borrowers in that program.

Scheduled Academic Year

An SAY is a fixed period of time that generally begins and ends at the same time each calendar year (for example, beginning on the first day of the fall semester and ending on the last day of the spring semester). The SAY generally corresponds to the academic year or calendar that is published in the school's catalog or other materials. An SAY must meet the statutory requirements of an academic year, as described in the *SFA Handbook: Institutional Eligibility and Participation.*

For a program that uses SAYs, a summer term may be part of the academic year that preceded that term (that is, it may be a "trailer"), or it may be part of the academic year that follows that term (that is, it may be a "leader"). The school can

- use a strict policy that summer terms are always trailers or leaders,
- determine whether a summer term is a trailer or leader on a program-by-program basis, or
- determine whether a summer term is a trailer or leader on a case-by-case basis.

Summer mini-sessions can be grouped together as a single trailer or leader, or they can be treated separately and assigned to different SAYs. If the summer mini-sessions are grouped and treated as a single term, the summer cost of attendance cannot include costs for a mini-session for which the student was not enrolled.

Borrower-based Academic Year

A BBAY is not a set period like an SAY; instead, the BBAY's beginning and end dates depend on an individual student's enrollment and progress. For example, a school that has new students beginning enrollment every month might use a BBAY for each student that begins in the month the student enrolls, rather than using an SAY that begins in the fall regardless of when the student actually begins classes. Like an SAY, the BBAY must meet the minimum statutory requirements for an academic year (see below for one exception to this requirement for term-based credit-hour programs.)

As noted previously, a school must use BBAYs for clock-hour and nonterm credit-hour programs. A school may choose to use a BBAY instead of an SAY for a term-based credit-hour program unless the program contains fewer than 30 weeks of instructional time in a year; in this case, as mentioned earlier, the school must use an SAY for the program.

For a term-based credit-hour program, the school can use BBAYs for all its students or just for students enrolled in certain programs, or it may use BBAYs on a student-by-student basis. The school can also alternate BBAYs with SAYs for a student, but the academic years must not overlap. A school that has these choices for academic year standards must have a written policy that explains how it applies these options when calculating loan eligibility.

The BBAY must include the same number of terms as the SAY the school would otherwise use (not including any summer trailer or leader). The BBAY may include terms and/or mini-sessions the student does not attend if the student could have enrolled **at least half time** in those terms or mini-sessions; however, unlike an SAY, the BBAY must begin with a term in which the student actually enrolled. Also, any mini-sessions (summer or otherwise) that run consecutively **must** be combined and treated as a single term. If the BBAY includes a summer term, the BBAY need not meet the 30-week minimum requirement for an academic year.

For a clock-hour or nonterm program, the BBAY begins when the student enrolls. Because the BBAY must meet the minimum statutory requirements for an academic year, the BBAY must contain at least 30 weeks of instructional time and the appropriate number of credit or clock hours (24 semester or trimester hours, 36 quarter hours, or 900 clock hours). The BBAY does not end until the student has completed the number of weeks **and** the number of hours in the academic year. A student who is attending less-than-full-time will take longer to complete the academic year than a full-time student.

Eligibility for Further Loans

In general, once a student has reached the annual loan limit, he or she cannot receive another Stafford Loan until he or she begins a new academic year. A student who has already received one Stafford Loan within an academic year may receive another loan if he or she has not yet reached the annual limit. In addition, a student who has already borrowed up to the annual limit within an academic year can receive another loan if his or her annual limit is increased, either because he or she progresses to a grade level with a higher limit or because his or her dependency status changes to independent. In all cases, the student may borrow the difference between the amount already borrowed within the academic year and the student's loan limit.

Note that for a nonterm program, the student will never progress to a higher grade level within an academic year and, thus, will only have a change in the loan limit if his or her dependency status changes. The student moves to a higher grade level only when he or she completes the BBAY.

AGGREGATE LOAN LIMITS

The maximum outstanding **total subsidized and unsubsidized** Stafford Loan debt allowed is

- $23,000 for a dependent undergraduate student,
- $46,000 for an independent undergraduate student, and

Total Cumulative Loan Limits for Direct Loans and FFELs

Dependent Undergraduate	$23,000
PLUS Loans	No limit
Independent Undergraduate	$46,000 (subsidized and unsubsidized, with subsidized limited to $23,000)
Graduate	$138,500 (subsidized and unsubsidized, with subsidized limited to $65,500; includes any loans outstanding from undergraduate study)

- $138,000 for a graduate or professional student (including loans for undergraduate study).

Note that these maximums include any amounts borrowed under the Direct Loan and FFEL programs and that any outstanding Federal Supplemental Loans for Students (SLS) that a borrower has count as unsubsidized loans against the borrower's aggregate loan limit.

The aggregate limit (or sum total) for both undergraduate and graduate/professional students must include the amounts a student has outstanding in subsidized and unsubsidized loans **under both the Direct Loan and FFEL programs**, even if the student has consolidated any of these loans under either program. A student should contact his or her consolidation loan holder to determine the makeup of the loan—that is, the amount and information on Federal Consolidation Loans.

Note that the Higher Education Amendments of 1998 provide that interest capitalized on subsidized or unsubsidized Stafford Loans shall not be counted in determining whether a borrower has exceeded aggregate (or annual) loan amounts.

Amendments of 1998

A borrower who has reached his or her aggregate borrowing limit may not receive additional loans. Once the loans are repaid in full or in part, the borrower may apply for additional Stafford Loans.

Increased Loan Limits for Health Education Assistance Loan (HEAL) Students

An increase in **annual** unsubsidized Stafford Loan limits is permitted for students who could have borrowed under the Health Education Assistance Loan (HEAL) Program but who are no longer eligible because they did not borrow under that program before October 1, 1995. Students in this category who are enrolled **full time** in schools that participate in the HEAL Program are eligible for the higher unsubsidized Stafford Loan amounts.

NEW

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"Dear Colleague" Letter GEN-98-18 expanded eligibility for the higher unsubsidized loan amounts to include students who **did** receive HEALs before October 1, 1995, because the Department of Health and Human Services had expected to use all of its funding prior to September 30, 1998. Therefore, for loan periods beginning on or after May 15, 1998, eligible schools may award the increased amounts of unsubsidized loans to all otherwise eligible health profession students, even if those students had previously participated in the HEAL Program. However, no student may receive the additional unsubsidized funding under the Department's loan programs if they are also receiving funding under HEAL for the same or any portion of the same loan period.

A school that participates in HEAL is one that made HEAL disbursements during Fiscal Year 1995 (October 1, 1994 through September 30, 1995) and has not withdrawn from the HEAL Program since that time. These eligible schools may award increased amounts of unsubsidized loans in the Direct Loan and FFEL programs for any loan period that begins before July 1, 1999.

When determining additional unsubsidized Stafford Loan limits, participating HEAL schools must use the current HEAL Program and Discipline loan limits, described in the Department of Health and Human Services *Student Financial Aid Guidelines Notebook* in Section 104.3.2. Note that, unlike in HEAL, no need analysis is required for the extra unsubsidized Stafford Loan amounts.

NEW

The **aggregate** unsubsidized Stafford Loan limit for these graduate and professional health profession students is $189,125 less the aggregate amount of any subsidized loans made to students. "Dear Colleague" Letter GEN-98-18 also established an aggregate unsubsidized loan limit of $70,625 less the aggregate amount of any subsidized loans to undergraduate students enrolled in five-year Bachelor of Pharmacology programs.

Payment to the Borrower

CHAPTER 3

The Department or a lender, depending on the federal student loan program, disburses loan proceeds to the school for delivery to the student or parent borrower. A school may credit loan proceeds to the student's account, pay the student or parent directly, or combine these methods.

DEFINITION OF DELIVERY AND DISBURSEMENT

A delivery of funds to the student occurs on the date the student's school account is credited by that school or on the date the borrower (student or parent) directly receives the William D. Ford Federal Direct Loan (Direct Loan) or Federal Family Education Loan (FFEL) funds from the school. If a school combines these methods of payment, delivery occurs on the earlier of the two dates. For a school that uses its own institutional funds to credit the student's school account or to pay the student before the Direct Loan or FFEL funds are received from the U.S. Department of Education (the Department) or the lender, delivery occurs on the date that those institutional funds are credited to the student's account or paid directly to the borrower.

However, because of other student financial assistance (SFA) requirements, there are instances when crediting institutional funds to a student's account in advance of receiving the actual Direct Loan or FFEL funds will not result in a disbursement:

- If a school credits a student's account with institutional funds more than 10 days before the first day of classes, the delivery is considered to have occurred on the 10th day before the first day of classes.

- Similarly, if a school credits the account of a first-time, first-year, undergraduate borrower with institutional funds sooner than 30 days after classes start, the delivery is considered to have occurred on the 30th day after classes start. Disbursement of FFEL funds is made by a lender; delivery of those funds is made by a school. However, for the purposes of the cash management rules, disbursement is used to mean delivery. See the *SFA Handbook: Institutional Eligibility and Participation* for more information on cash management.

Because the functions of authorizing payment and delivering loan proceeds must be separate, no single office at the school is permitted to carry out both functions.

FINANCIAL AID HISTORY AND NSLDS

As stated in Chapter 2 of this reference, during the loan application process, a financial aid administrator must request a financial aid transcript (FAT) from each eligible school a student previously attended or must use the National Student Loan Data System (NSLDS) to obtain the student's previous financial aid information. It is the financial aid administrator's responsibility to determine whether a student previously attended an eligible school and to obtain the proper information. (Procedures for obtaining FATs are described in the *SFA Handbook: Institutional Eligibility and Participation.*) Until a school receives an FAT from each of a student's previously attended schools, the school may not deliver Federal Stafford Loan proceeds to the student. In the case of a Federal PLUS Loan, the financial aid administrator must not even certify the application until the school receives an FAT from each of the benefiting student's previous eligible schools.

A school may **not** release funds to a student if information a previous school provided indicates that the student is in default on an SFA loan or that the student owes a repayment on an SFA grant. See the *SFA Handbook: Student Eligibility* for information on these eligibility issues.

METHODS OF DISBURSING AND DELIVERING FUNDS

Disbursement to School

Because authorization for a lender's disbursement by electronic funds transfer (EFT) or master check is collected on the Common Stafford Loan and PLUS Loan applications and the Master Promissory Note, a school is not required to obtain a separate written authorization for the lender's disbursement in most cases. If a lender disburses Stafford Loan or PLUS Loan proceeds by EFT or master check and the borrower did not provide authorization on the application, the school must obtain the borrower's written authorization for the lender's disbursement of the initial and any subsequent disbursement. The school must collect this authorization not more than 30 days before the first day of classes of the enrollment period.

With the first disbursement of loan proceeds, the school, Department, or lender must provide the borrower with a copy of the completed promissory note and repayment information. A school is also required to provide certain notifications to borrowers before delivering funds to them.

See the *SFA Handbook: Institutional Eligibility and Participation* for more information on required authorizations and notifications. The *SFA Handbook: Institutional Eligibility and Participation* also provides information on a borrower's right to cancel a loan or a portion of a loan before or soon after the time of disbursement.

Methods of Delivering Funds to a Borrower

In addition to crediting a student's account, Direct Loan or FFEL Program funds may be disbursed directly to a student or parent. A school may disburse funds directly by one of four methods:

- releasing a check from an FFEL Program lender to the student or parent;
- issuing a check or other instrument payable to and requiring the endorsement or certification of the student or parent (by releasing or mailing it to the borrower or by notifying the borrower that the check is available for immediate pickup);
- initiating an electronic funds transfer (EFT) to a bank account designated by the student or parent; and
- paying the borrower in cash, provided that the school obtains a signed receipt from the borrower.

DISBURSEMENT AND DELIVERY REQUIREMENTS

Direct Loan and FFEL Program Disbursement Requirements

A school may not deliver the first Direct Loan or FFEL installment to a first-time, first-year undergraduate until 30 days after the first day of the student's program of study. However, a school that has a cohort default rate of less than 10 percent for each of the last three years for which rates have been calculated is exempt from the 30-day requirement for first-time, first-year borrowers.

Amendments of 1998

In the case of a lender that disburses FFEL funds to a school by check requiring the endorsement of the borrower

- the school may not request lender disbursement of the borrower's loan proceeds until the 30th day before the first day of classes for a payment period; and
- for first-year, first-time borrowers, the school may not request the first disbursement of a Stafford Loan until the first day of classes of the first payment period. For any subsequent payment period, the school may not request a disbursement earlier than 30 days before the first day of classes.

In the case of a lender that disburses funds to a school by EFT or master check

- the school may not request lender disbursement of the borrower's loan proceeds (or PLUS Loan proceeds) until the 13th day before the first day of classes of the payment period; and

- for first-year, first-time borrowers, the school may not request the first disbursement of a Stafford Loan until the 27th day after the first day of classes of the first payment period. For any subsequent payment period, the school may not request a disbursement earlier than 13 days before the first day of classes. (This time frame does not apply to PLUS loans).

Before each disbursement is made, a school must review the student's eligibility to ensure that he or she remains eligible for the disbursement. If a student temporarily ceases to be enrolled **at least half time** before any Direct Loan or FFEL funds are disbursed, the school or lender may still make a first disbursement (and subsequent disbursement) if the student resumes enrollment **at least half time**. The school must review the student's cost of attendance (COA) and revise it as necessary to ensure the student continues to qualify for the entire amount of the loan, even though the COA may be lower. The school must document this review in the student's file. Reaffirmation of loan eligibility requires the school to verify Pell Grant eligibility (if applicable), to establish that the student has maintained satisfactory academic progress standards, and to verify enrollment status. When the school reports the student's change in enrollment status but expects the student to resume enrollment within a time period that is less than a payment period in length, it must specifically request that the lender make the second or subsequent disbursements. Otherwise, the lender is required by law to cancel the second disbursement.

If a student delays attending school but begins attendance within the first 30 days of enrollment, the school may consider the student to have maintained eligibility for the loan from the first day of the enrollment period.

A school or lender must disburse loan proceeds in at least two installments. No installment may exceed one-half the loan amount. There are two exceptions to this multiple disbursement requirement:

- A lender is not required to disburse a Federal Consolidation Loan in more than one payment.
- A lender is not required to make more than one disbursement of any FFEL if the student is attending an eligible foreign institution.

The *SFA Handbook: Institutional Eligibility and Participation* discusses in detail the requirements of the cash management regulations published on November 29, 1996. The discussion here will focus on how those regulations affect Direct Loan and FFEL disbursement and delivery procedures.

If a school's program uses standard academic terms (for example, semester, trimester, or quarter) and measures progress in credit hours, disbursements are made as follows:

- If there is only one term, the Department or lender disburses a Stafford Loan in equal amounts at the beginning of the term and at the term's calendar midpoint. However, if any payment period has elapsed before a lender makes a disbursement, the lender may include in the disbursement the proceeds for all completed payment periods. Similarly, if a loan period equals one payment period and more than half of it has elapsed, a school or lender may include in a disbursement the proceeds for the entire payment period.

  However, for loans disbursed on or after October 1, 1998, a school that had a cohort default rate of less than 10 percent for each of the last three years for which rates have been calculated is exempt from multiple disbursement requirements for any period of enrollment that is not more than one quarter, one semester, one trimester, or four months.

Amendments of 1998

- If there is more than one term, funds must be disbursed over all terms of the loan period. For example, if a loan period includes all three quarters of an academic year, the loan must be disbursed in three basically equal payments. Previously, quarter-based schools could have disbursed loan funds for all three quarters in two disbursements. If one or more payment periods have elapsed before a school or lender makes a disbursement, the school or lender may include in a disbursement the proceeds for the entire payment period.

If a school's program measures progress in clock hours or in credit hours without using standard terms, disbursements are made as follows:

- If the program is one academic year or shorter, the Department or a lender disburses a Stafford Loan in equal amounts at the beginning of the term and at the term's calendar midpoint. The second disbursement may not be made, however, until the later of

  - Δ the calendar midpoint between the first and last scheduled days of class of the loan period; or

  - Δ the date (determined by the school) that the student has **successfully** completed half of the academic coursework (for credit hour schools) or half the clock hours (for clock-hour schools) in the loan period.

  However, for loans disbursed on or after October 1, 1998, a school that had a cohort default rate of less than 10 percent for each of the last three years for which rates have been calculated is exempt from multiple disbursement requirements for any period of enrollment that is not more than one quar-

Amendments of 1998

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ter, one semester, one trimester, or four months.

- If the program is longer than an academic year, the lender makes disbursements as described above for the first and any subsequent full academic year. If the remaining portion of the program is less than a full academic year, the Department or a lender disburses a loan in equal amounts at the beginning of the remaining portion and at the portion's calendar midpoint. Again, the second disbursement may not be made until the later of the two dates described above.

- If the calendar midpoint of the loan period has passed and the borrower had completed half the credit hours or clock hours in the loan period before the school makes any disbursement, the school may disburse the loan in a single installment.

A school that offers courses of study by correspondence and that wishes to participate in the Direct Loan or FFEL Program must establish a lessons submission schedule and give that schedule to prospective students before they enroll. The course schedule must include

- a due date for each course lesson;

- if available, a description of any options for altering the sequence of lesson submissions;

- the course completion date; and

- the date that resident training must begin, its location, and the time frame for completing the resident training.

Amendments of 1998

A school whose most recently calculated cohort default rate is less than five percent shall be exempt from the multiple disbursement requirement and the 30-day delayed disbursement requirement for loans disbursed on or after October 1, 1998 to students attending study abroad programs approved by eligible institutions.

Direct Loan Disbursement Requirements

Before disbursement, Direct Loan schools must take certain steps:

- The school or the Department's Loan Origination Center, depending on the school's origination level, must have a completed, signed Master Promissory Note from the borrower.

- The school must confirm the borrower's eligibility (see Chapter 1 of this reference).

- If a student has received financial aid from another school, the financial aid administrator must request a financial aid transcript from each eligible school the student previously attended or use National Student Loan Data System (NSLDS) information to ensure the student is not in default on an SFA loan and does not owe a repayment on an SFA grant. Schools also must determine the borrower's outstanding Direct Loan/ FFEL balance to determine remaining eligibility. See the *SFA Handbook: Student Eligibility* for information on financial aid transcripts and NSLDS.

- The cash management regulations state that schools must notify students not only of the amount of SFA funds the students can expect to receive but also the amount that **parents** can expect to receive. The notice must also specify how and when students' and parents' expected SFA funds will be disbursed. Schools must delineate in the notice which loan funds are subsidized and which are unsubsidized. For additional school notification requirements, see the *SFA Handbook: Institutional Eligibility and Participation.*

Schools must notify students or parents electronically or in writing when crediting students' accounts with Direct Loan funds. Schools must send the notice **no earlier than 30 days before and no later than 30 days after** crediting the student's account. Schools must provide in the notice

- the date and amount of disbursement,
- the borrower's right to cancel all or a portion of the loan or loan disbursement, and
- the procedures and time by which the borrower must notify the school that he or she wishes to cancel.

Schools must report required information on actual disbursements, disbursement cancellations, and disbursement adjustments—within 30 days after these occur—to the Loan Origination Center. For information on these procedures, including how to handle excess cash, see the *Direct Loan School Guide.*

FFEL Program Disbursement Requirements

The Lender's Role

An FFEL lender must give a borrower a copy of an initial disclosure statement prior to, or at the time of, the first loan disbursement. This statement must indicate:

- in bold print that this is a loan that must be repaid;
- the principal amount of the loan;
- the actual interest rate;
- the amount of any charges, including the origination fee if applicable, and the insurance premium, to be collected by the lender before or at the time of each loan disbursement;

- when repayment is required and when the borrower is required to pay the interest that accrues on the loan;
- the name and address of the lender and the address to which communications and payments should be sent;
- that the lender may sell or transfer the loan to another party and that the address and identity of the party to which correspondence and payments should be sent may change;
- the yearly and cumulative maximum amounts that may be borrowed;
- that information concerning the loan (including the amount of the loan and the date of disbursement) will be reported to a national credit bureau;
- the minimum annual payment required, and minimum and maximum repayment periods;
- an estimate of the monthly payment due the lender, based on the borrower's cumulative outstanding debt (including the loan applied for);
- refinancing and consolidation options;
- that the borrower has the right to make prepayments;
- circumstances under which repayment of principal or interest on the loan may be deferred and an explanation of forbearance;
- that the U.S. Department of Defense offers a repayment option (as an enlistment incentive);
- the definition of default (and the consequences of default);
- the effect of the loan on eligibility for other student assistance; and
- an explanation of borrower costs incurred in collection of the loan.

The information on the disclosure statement must be the most up-to-date information concerning the loan and must reflect any changes in laws or federal regulations that may have occurred since the promissory note was signed. If the student has questions about the statement, he or she should contact the lender immediately. If the student wishes to cancel the loan, he or she should contact the school immediately. In either case, the student should **not** endorse a loan check or an EFT form authorizing transfer of loan proceeds to his or her account.

OVERAWARDS

If a school becomes aware, before Direct Loan or FFEL funds are disbursed, that a student has obtained additional financial assistance resulting in an overaward (that is, an award in excess of the amount for which the student is eligible), the school must take steps to reduce the overaward. For example, the school may reduce the second or subsequent disbursement of the loan or return excess loan proceeds to the Department. See Chapter 2 for a detailed discussion of overawards and a school's options.

CREDIT BALANCES

A school must pay a credit balance directly to a student or parent

- no later than 14 days after the balance occurred if the credit balance occurred after the first day of class of a payment period or
- no later than 14 days after the first day of class of a payment period if the credit balance occurred on or before the first day of class of that payment period.

Note that this 14-day requirement is now a standard for all SFA programs.

A school may hold any additional loan proceeds in excess of that necessary to cover allowable school charges the student owes (for use during the remainder of the academic year) **only** with the student's written authorization. A school may not require or coerce a student to provide authorization, and a school must allow for cancellation or modification of the authorization at any time.

If a student's account shows a credit balance and a PLUS Loan has been credited to the account, the school must distribute the excess PLUS Loan funds to the parent borrower, unless the parent has provided written authorization allowing the school to give the funds to the student.

The credit balance must be deposited in a subsidiary ledger account; also, the school must maintain cash in its bank account for an amount equal to the amount of the funds the school holds for the student.

A school must pay any remaining balance on loan funds by the end of the loan period in the award year for which the funds were awarded.

In the case of a PLUS Loan, a school must obtain the parent borrower's written authorization to deliver a credit balance of PLUS Loan funds directly to the student. Otherwise, the school must deliver these funds to the parent.

LATE DISBURSEMENT

If the lender disburses the Stafford Loan or PLUS Loan proceeds after the end of the period of enrollment for which the loan was made, the proceeds must be returned to the lender within 30 days, unless the proceeds are the first disbursement of the loan and come with a notice from the lender stating that this represents a late first disbursement. Similarly, if the lender disburses the loan proceeds before the end of the enrollment period but after the student has left school or dropped below half-time status, the school must return the loan proceeds to the lender within 30 days unless this disbursement qualifies as a late disbursement.

Regulations permit a lender to disburse a Federal Stafford Loan or PLUS Loan after the student is no longer enrolled **at least half time** only if all of the following are true:

- The student became ineligible solely because he or she is no longer enrolled at the school as at least a half-time student for the loan period;
- Before the date the student became ineligible, the school received from the student a *Student Aid Report* (SAR) with an official Expected Family Contribution (EFC) that the Department calculated, or the school received from the Department an *Institutional Student Information Record* (ISIR) with an official EFC that the Department calculated;
- The loan proceeds are used for costs of attendance incurred while the student was enrolled **at least half time** and eligible for the loan;
- In the case of a first disbursement made to a first-year undergraduate borrower subject to delay, the student must have completed the first 30 days of the loan period for which the loan was made;
- In the case of a second or subsequent disbursement, the student must have successfully completed the period of enrollment for which the loan was made; and
- The school must have created a complete, electronic loan origination record or certified the FFEL application while the student was enrolled and eligible.

A school may make a late disbursement of a Stafford Loan or PLUS Loan no later than 90 days after the date that the borrower became ineligible for the loan.

A school may not make a late second or subsequent disbursement of a Stafford Loan unless the student has graduated or successfully completed the period of enrollment for which the loan was intended.

BORROWER INELIGIBILITY AND RETURN OF FUNDS TO LENDER

Return of FFEL Funds Cite
34 CFR 668.167(b)

The regulations provide for three discrete 10-day periods for disbursing and returning FFEL Program funds.

For a detailed discussion of "Return of Funds" for Direct Loan schools, please see the *Direct Loan School Guide.*

For purposes of the cash management regulations and this discussion, returning funds "promptly" means that a school may not delay initiating and completing its normal process for returning FFEL Program funds to lenders.

Also for these purposes, the requirement that a school "return funds no later than 10 business days" means that a school must mail a check or initiate an EFT of FFEL funds to the lender by the close of business of the last day of the return period.

Initial Period

For FFEL Program funds a school received from a lender via EFT or master check after July 1, 1997, but before July 1, 1999, a school must have disbursed those funds to eligible students (or, for PLUS Loan funds, to parents of eligible students) no later than 10 business days after the school received the funds. For FFEL Program funds a school received from a lender via EFT or master check on or after July 1, 1999, a school must have disbursed those funds to eligible students (or, for PLUS Loan funds, to parents of eligible students) no later than three (3) business days after the school receives the funds.

For FFEL Program funds that a school receives from a lender via a check requiring the endorsement of the student (or parent), the school must disburse those funds to eligible students (or, for PLUS Loan funds, to parents of eligible students) no later than 30 calendar days after the school receives the funds.

Conditional Period

A school has 10 business days after the last day of the initial period to disburse FFEL Program funds only if

- the student did not satisfy a programmatic requirement necessary to receive the funds during the initial period **and**

- the school expects the student to satisfy that requirement during the conditional period.

Return Period

For FFEL Program funds that a school does not disburse by the end of the initial or conditional period, as applicable, the school must return those funds to the lender promptly but no later than 10 business days from the last day of that initial or conditional period. However, if a student becomes eligible to receive FFEL program funds during the return period, the school may disburse those funds provided that the disbursement is made on or before the last day of the return period.

Student's Failure to Register, Begin Delayed Attendance, or Complete Verification

If a school discovers that a student did not register for the period of enrollment covered by the loan or did not begin delayed attendance within the first 30 days of enrollment, the school must return the loan proceeds to the lender within 30 days of this determination. If a student registers and receives the loan proceeds but attends less than half time or is otherwise found to be ineligible for all or part of the loan, the student has failed to qualify for the loan, and the Department or lender must immediately demand full loan repayment. It is the borrower's responsibility to notify the lender if he or she fails to enroll **at least half time** after receiving the loan. (The school must also notify the lender of the borrower's loan ineligibility.) It is also the borrower's responsibility to repay the amount due if he or she fails to qualify for it. **If the borrower fails to repay the loan, the Department or lender, after following due diligence requirements (which include demanding payment in full), may file a default claim for the full loan amount**.

A school must return Stafford Loan proceeds to the lender if a student selected for verification does not complete the verification process within 45 days of the school's receipt of the proceeds. See *The SFA Handbook: Student Eligibility* for more information on verification.

Effect Of Returned Funds On Loan Fees

If a school returns an FFEL disbursement or any portion of an FFEL disbursement to a lender, the origination fee and insurance premium are reduced in proportion to the amount returned. If a student returns an FFEL disbursement or any portion of an FFEL disbursement to the lender, the origination fee and insurance premium are reduced in proportion to the amount returned only if the lender receives the returned amount within 120 days after disbursement.

For more information on how returning Direct Loans affects loan fees and accrued interest on loans, see the *Direct Loan School Guide.*

REIMBURSEMENT PAYMENT METHOD

A school placed under the reimbursement payment method (for the Federal Pell Grant Program, Direct Loan Program, FFEL Program, or campus-based programs) may not disburse SFA funds to a borrower until the Department approves a request from the school to make a disbursement for that borrower. If prohibited by the Department, a school may not certify a borrower's loan application until the Department approves a request from the school to make the certification or disbursement for the borrower. For the Department to approve a school's disbursement or certification request, the school must submit documentation verifying each borrower's eligibility for disbursement or certification. (A school participating in the Direct Loan or FFEL Program may also be subject to this requirement if the Department deems the requirement necessary.)

Repayment

CHAPTER 4

The promissory note a borrower signs before receiving a Stafford Loan explains the loan's terms (the interest rate and how much a borrower will owe, for example) and outlines his or her rights and responsibilities as a borrower. When the borrower signs it, he or she is agreeing to repay the loan according to the note's terms. As indicated in the promissory note, interest begins to accrue on the date the loan enters repayment and will continue to accrue until the loan is fully repaid.

GRACE PERIODS

A "grace period" is the period of time before the borrower must begin or resume repaying a loan. An "initial grace period" is one that immediately follows a period of enrollment and immediately precedes the date repayment is required to begin for the first time.

For borrowers who have been attending at least half time, initial grace periods are six consecutive months after the borrower drops below half-time study at an eligible institution or at a comparable school outside the United States. The exception to this rule is a borrower with a Stafford Loan at the 7 percent interest rate. This borrower has a 9- to 12-month grace period, which is set by the lender or the guaranty agency and is shown on the promissory note the borrower signs.

It is important to note that grace periods are always day-specific; that is, an initial grace period begins on the day immediately following the day the borrower ceases attending school at least half time and ends on the day before the repayment period begins. A borrower has ceased attending at least half time for the following reasons: because the student has completed the course of study, because the student has dropped out of school or has dropped below half-time status, or because the student transfers to a school that is not considered an eligible school for in-school deferment purposes (see Chapter 5 of this reference for more information). The borrower may request a shorter grace period.

For correspondence students, the grace period begins on the earliest of the following three dates:

- the date the borrower completes the program;
- the date that is 60 days after the school's deadline for completing the program; or

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- the date on which the borrower falls 60 days behind the due date for submitting a scheduled assignment.

For information on eligible correspondence programs, see the *SFA Handbook: Student Eligibility*.

For a student attending at least half time, the initial grace period does not end until he or she ceases to be enrolled at least half time for a **continuous** period of six months. A borrower who returns to school on at least a half-time basis prior to completion of the initial grace period is entitled to a full initial grace period, calculated as six consecutive months, from the date that he or she drops below half-time enrollment again. Suppose, for example, that a borrower takes out a loan in the fall quarter, drops out of school for the winter quarter, and resumes at least half-time study for the spring quarter. The borrower would still be entitled to a full initial grace period once he or she again leaves school or drops below half-time status.

If a borrower has a Federal Supplemental Loans for Students (SLS) loan that has not yet entered repayment and a Federal Stafford Loan that has not yet entered repayment, the borrower may request that he or she be allowed to delay repayment on the SLS loan for the period equivalent to the Stafford Loan grace period so that repayment on both loans can begin at the same time. (Note that no new SLS loans are being made; the SLS Program was repealed beginning with the 1993-94 award year.)

A borrower with Stafford Loans made prior to October 1, 1981 is entitled to a six-month **post-deferment** grace period following any deferment. The one exception is the unemployment deferment. Although a borrower may have several periods of unemployment deferred, he or she may receive a post-deferment grace period **only** following the first unemployment deferment.

Amendments of 1998

A period of active duty military service of more than 30 days exempts a member of the Armed Forces from the six-month grace period limitation, for up to a maximum of three years. The period necessary to resume regular enrollment in the next available regular enrollment period is also exempted from the six-month grace period.

INTEREST RATES

The U.S. Department of Education (the Department) does not charge interest during in-school, grace, and deferment periods for subsidized Stafford Loans. For unsubsidized Stafford Loans and for PLUS Loans, borrowers are responsible for paying all interest, including interest which accrues during the student's in-school, grace, and deferment periods. All borrowers are charged interest during forbearance periods.

Federal Stafford Loans

In the past, the interest rate on a borrower's first Stafford Loan applied to all subsequent Stafford Loans, as long as he or she had an outstanding balance on a loan at that interest rate when subsequent loans were obtained. However, the Technical Amendments of 1993 changed the law to enable borrowers with fixed interest rates on earlier Stafford Loans to obtain the variable interest rate previously available only to new borrowers.

Interest rates for Stafford Loans (subsidized and unsubsidized) follow:

- For a loan disbursed on or after October 1, 1992 and before July 1, 1994 to a borrower with no FFELs (either subsidized or unsubsidized) outstanding, the interest rate is variable and is determined on June 1 of each year.
  - Δ The rate will be based on the bond equivalent rate of 91-day Treasury bills auctioned at the final auction before June 1 plus 3.1 percent.
  - Δ The interest rate for these loans may not exceed 9 percent.
- For loans first disbursed on or after July 1, 1994, the interest rate is variable and is determined on June 1 of each year, regardless of whether that borrower has Federal Family Education Loans (FFELs) outstanding.
  - Δ The rate will be based on the bond equivalent rate of 91-day Treasury bills auctioned at the final auction before June 1 plus 3.1 percent (except during in-school, grace, and deferment periods for loans that are first disbursed on or after July 1, 1995 but prior to July 1, 1998).
  - Δ The interest rate for these loans may not exceed 8.25 percent.

For example, a borrower who has outstanding Stafford Loans with interest rates of 9 percent or 7 percent and whose newest Stafford Loan was disbursed on September 1, 1998 would receive a variable interest rate on that loan. The terms and conditions (and interest rates) of the prior loans will still apply to those prior loans unless the loans are converted to a variable interest rate because they are subject to rebates of excess interest.

The variable interest rate for July 1, 1999 through June 30, 2000 for the first category of loans (loans disbursed on or after October 1, 1992 and before July 1, 1994) is 7.72 percent. The variable interest rate for July 1, 1999 through June 30, 2000 for the second category of loans (loans first disbursed on or after July 1, 1995 but prior to July 1, 1998) is 7.72 percent.

As stated, during in-school, grace, and deferment periods for loans that are first disbursed on or after July 1, 1995 but prior to July 1, 1998, the interest rate is not the same as it is during repayment. The rate is based on the bond equivalent rate of 91-day Treasury bills auctioned at the final auction before June 1 **plus 2.5** percent. For this category of loans, the interest rate for July 1, 1999 through June 30, 2000 is 7.12 percent.

The interest rate for Stafford Loans that are first disbursed on or after July 1, 1995 but prior to July 1, 1998, the interest rate is based on the bond equivalent rate of 91-day Treasury bills auctioned at the final auction before June 1 **plus 3.1** percent. For this category of loans, the interest rate for July 1, 1999 through June 30, 2000 is 7.72 percent.

If an annual adjustment in a borrower's variable interest rate will prevent the loan from being repaid within the maximum allowable repayment period under the current repayment schedule, a lender must either make an adjustment in the borrower's monthly payment amount or grant a mandatory administrative forbearance as described in Chapter 5 of this reference.

Amendments of 1998

The interest rate for Stafford Loans first disbursed on or after July 1, 1998 and before July 1, 2003, during any 12-month period beginning on July 1 and ending June 30, is determined on the preceding June 1 and is equal to the bond equivalent rate of 91-day Treasury bills auctioned at the final auction held prior to such June 1 plus **2.3** percent. This rate may not exceed 8.25 percent. The interest rate for this category of loans between July 1, 1999 and June 30, 2000 is 6.92 percent.

Amendments of 1998

During in-school deferment or grace periods, the interest rate for Stafford Loans first disbursed on or after July 1, 1998 and before July 1, 2003, during any 12-month period beginning on July 1 and ending June 30, is determined on the preceding June 1 and is equal to the bond equivalent rate of 91-day Treasury bills auctioned at the final auction held prior to such June 1 plus **1.7** percent. This rate may not exceed 8.25 percent. The interest rate for this category of loans from July 1, 1999 through June 30, 2000 is 6.32 percent.

Conversion Of Loans To A Variable Interest Rate

Certain fixed-rate loans disbursed in the past are also now subject to conversion to a variable interest rate. The Technical Amendments of 1993 required lenders to convert most loans **subject to rebate of excess interest** to variable rate loans by January 1, 1995. The variable rate depended on the type of loan converted but could not exceed the original fixed interest rate of the loan as specified in the promissory note. The loan holder was required to inform the

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borrower of the conversion to a variable rate at least 30 days prior to conversion.

Loans subject to a rebate of excess interest and conversion to a variable rate are

- Stafford Loans at 8 percent changing to 10 percent after four years of repayment
  - Δ If made before July 23, 1992, such a loan becomes subject to a rebate only when the interest rate increases to 10 percent
  - Δ If made to a first-time borrower on or after July 23, 1992 and before October 1, 1992, such a loan becomes subject to a rebate only when the interest rate increases to 10 percent
  - Δ If made to a repeat borrower on or after July 23, 1992 and before July 1, 1994, such a loan is subject to a rebate on the date the loan is made;
- 7 percent, 8 percent, and 9 percent fixed-rate Stafford Loans made to repeat borrowers on or after July 23, 1992 and before July 1, 1994.

Loans subject to rebate of excess interest are explained in more detail in the November 30, 1994 FFEL Final Rule.

Federal PLUS Loans

All Federal PLUS Loans made on or after July 1, 1987 have variable interest rates, determined on June 1 of each year according to a prescribed formula and are effective for the following July 1 through June 30.

The variable interest rate for a PLUS Loan first disbursed on or after July 1, 1987 and before October 1, 1992 must not exceed 12 percent. The interest rate for these PLUS loans for July 1, 1999 through June 30, 2000 is 8.13 percent.

The variable interest rate for a PLUS Loan first disbursed on or after October 1, 1992 and before July 1, 1994 may not exceed 10 percent. The interest rate for these PLUS Loans for July 1, 1999 through June 30, 2000 is 7.98 percent.

The variable interest rate for a PLUS Loan disbursed on or after July 1, 1994 and before July 1, 1998 must not exceed 9 percent. The bond equivalent rate of the 52-week Treasury Bills (auctioned at the final auction held prior to June 1 each year), plus 3.1 percent of that amount, equals the variable interest rate. The variable interest rate for these PLUS Loans for July 1, 1999 through June 30, 2000 is 7.98 percent.

Amendments of 1998

The interest rate for PLUS Loans first disbursed on or after July 1, 1998 and before October 1, 1998 shall, during any 12-month period beginning on July 1 and ending June 30, be determined on the preceding June 1 and be equal to the bond equivalent rate of 91-day Treasury bills auctioned at the final auction held prior to such June 1 plus **3.1** percent. This rate shall not exceed 9.0 percent.

The interest rate for PLUS Loans first disbursed on or after October 1, 1998 and before July 1, 2003 shall, during any 12-month period beginning on July 1 and ending June 30, be determined on the preceding June 1 and be equal to the bond equivalent rate of 91-day Treasury bills auctioned at the final auction held prior to such June 1 plus **3.1** percent. This rate shall not exceed 9.0 percent. The interest rate for this category of loans from July 1, 1999 through June 30, 2000 is 7.72 percent.

Annual adjustments in interest rates may alter monthly payment amounts from year to year. Or, the lender may keep the monthly payment amount the same but increase (or decrease) the number of payments required to reflect the increase (or decrease) in the annual variable interest rate.

ADDITIONAL BORROWING COSTS

Loan Fees - Direct Loans

The Department charges a loan fee of 4 percent of the principal amount of any Direct Loan and deducts this fee from the loan proceeds. A prorated portion of the fee is deducted from each disbursement. At the time this reference went to print, a "Dear Colleague" Letter lowering the Direct Loan origination fee was expected to be published. Please continue to check the *Information for Financial Aid Professionals* web site for such information.

Loan Fees - FFELs

In addition to interest, FFEL borrowers also pay insurance premiums and origination fees on their loans. A lender charges each FFEL borrower an origination fee. A guaranty agency charges the lender an insurance premium on each loan it guarantees. Generally, the lender passes this cost on to the borrower.

The maximum insurance premium that a guaranty agency may charge the lender of a Stafford Loan or PLUS Loan is a one-time fee not to exceed 1 percent of the principal amount of the loan. If the lender passes this charge on to the borrower, the fee must be deducted proportionately from each loan disbursement.

The origination fee is 3 percent of the principal amount of the loan. A lender may (but is not required to) charge an origination fee on a subsidized FFEL. A lender must charge an origination fee on an unsubsidized FFEL or Federal PLUS Loan. The lender must deduct (collect) the origination fee proportionately from each disbursement, regardless of the type of loan on which it is being charged.

Loan Fees – Direct Loan and FFEL Programs

The origination fee and insurance premium (for FFELs), the loan fee (for Direct Loans), or the appropriate prorated amounts of those fees, must be refunded by application to the borrower's account if

- the school returns the loan or a portion of the loan to the lender,
- the loan check has not been negotiated within 120 days of disbursement,
- the loan is repaid in full within 120 days of disbursement, or
- the loan proceeds were disbursed by electronic funds transfer (EFT) or by master check and the school has not released these funds from its restricted account within 120 days of disbursement.

Late Charges

If a borrower fails to pay all or a portion of a required Direct Loan installment within 30 days after it is due, and within 15 days after it is due for FFELs, the Department or lender may require the borrower to pay a late charge (if authorized by the borrower's promissory note). This charge may not exceed six cents for each dollar of each late installment.

Collection Charges

If authorized by the borrower's promissory note, and notwithstanding any state law provisions, a lender may require that a borrower or an endorser pay costs the lender or its agents incurred in collecting installments not paid when due. These charges include but are not limited to

- attorney's fees;
- court costs; and
- telegrams.

These costs may not include routine collection costs associated with preparing letters or notices or with making personal contacts with the borrower (for example, local and long-distance telephone calls).

An example of non-routine collection costs is the cost of processing checks returned for insufficient funds.

FEDERAL STAFFORD LOAN REPAYMENT

While the borrower is in school at least half time (before the expiration of his or her grace period), the federal government pays the interest on a subsidized Stafford Loan on his or her behalf. For an unsubsidized Stafford Loan, interest accrues during this period, and the borrower is responsible for paying it. The borrower may pay the interest while he or she is in school, or the lender will capitalize it (that is, add it to the principal balance).

The loan repayment period for a Stafford Loan (subsidized or unsubsidized) begins the day after the grace period ends and ends no later than 10 years from that date (with some exceptions—see below), excluding periods of deferment and forbearance. Generally, the first payment on a Stafford Loan is due no later than 45 days after the first day that repayment begins. The lender must notify the borrower of the date and amount of the first payment as part of a repayment disclosure that must be sent to the borrower no less than 30 days before the date that the first payment is due and no more than 240 days before that date.

Determining a Student's Withdrawal Date

A student's withdrawal date is the date that the student notifies an institution of his or her withdrawal or the date of withdrawal specified by the student, whichever is later. If the student does not withdraw officially (that is, he or she drops out of school without notifying the school), the last recorded date of the student's class attendance, as documented by the school, is the student's withdrawal date. An institution must determine the withdrawal of a student who drops out in a timely manner. This date must be determined within 30 days after the expiration of the earliest of these three periods:

1) the period of enrollment for which the student has been charged;

2) the academic year in which the student withdrew; or

3) the educational program in which the student withdrew.

In the case of a student who does not return from a summer break, the school shall determine the student's withdrawal date no later than 30 days after the first day of the next scheduled term.

A student who has been granted a leave of absence is not considered to have withdrawn from school. If a student fails to return from an approved leave of absence, the withdrawal date is the last recorded date of class attendance. This date is used regardless of whether the student withdraws officially (by notifying the school) or unofficially (by discontinuing attendance without notifying the school).

For correspondence study, the withdrawal date is the date of the last lesson the student submitted. There are regulatory appeal procedures with regard to the withdrawal date for correspondence study.

Appealing Withdrawal Date from Correspondence Study Cite
34 CFR 668.22(j)(l)(iii)

The refund policy for students who have withdrawn, who have dropped out, or who have not returned from an approved or unapproved leave of absence is explained in Chapter 11 of this reference.

It is the student's responsibility to notify the school or the lender of the date on which he or she ceases to be enrolled at least half time at a participating school. The financial aid administrator should emphasize to students the importance of that responsibility. Upon receiving notification of this critical date, the Department or the school (for Direct Loans) or the lender (for FFELs) will send a repayment schedule to the borrower. If a loan sale or transfer requires the borrower to send payments to a new address, the present and former holders of the loan (either jointly or separately) must notify the borrower of the change within 45 days of the sale or transfer. This notification should spell out the borrower's obligations to the new loan holder.

Loan Repayment Schedules

Provisions of a loan repayment schedule must agree with those in the promissory note and the loan disclosure statement. Generally, a borrower has from 5 to 10 years to repay a loan in full. Any periods of authorized deferment or forbearance are not counted in the repayment period.

Prepayment

If a borrower pays any amount that exceeds the amount due, the excess is a prepayment. A Stafford Loan borrower may prepay all or part of a loan at any time without penalty. A prepayment is applied first to any accrued charges or collection costs, then to any outstanding interest, and then to outstanding principal. If the amount of the prepayment **equals or exceeds** the monthly repayment amount under the borrower's repayment plan, the Department or the lender advances the next payment due date (unless the borrower requests otherwise) and notifies the borrower of the revised due date.

Minimum Payment Amount

In general, the minimum total scheduled payments to all holders of a borrower's Stafford Loans must be at least $600 per year. This minimum also applies to PLUS Loans. Loan payments for Stafford Loans, however, usually exceed these minimums because of the statutory limits on repayment. Monthly payment amounts may not be set at less than the amount of interest due. The Department or the lender may round up the loan payment to ensure that the payment is a multiple of $5. The Department or the lender may require a repayment period of less than 5 years, if necessary, to ensure that the above minimum payments are met. Note that the $600-per-year minimum combined annual payment for a married couple with Stafford Loans is no longer permitted.

Direct Loan Repayment Plans

Direct Stafford Loan borrowers may repay their loans through one of the following repayment plans:

- the Standard Repayment Plan;
- the Extended Repayment Plan;
- the Graduated Repayment Plan;
- the Income Contingent Repayment Plan; or
- an alternative repayment plan

Direct PLUS Loan borrowers may choose from any of these plans except Income Contingent Repayment.

In general, all of a borrower's Direct Loans must be repaid under the same repayment plan, except that a borrower may repay a Direct PLUS Loan or Direct PLUS Consolidation Loan separately from other Direct Loans. The *Repayment Book* explains repayment plans in detail.

Shortly before a loan enters repayment, the borrower receives information from the Department's Direct Loan Servicing Center about the various repayment plans (including the estimated amounts the borrower would pay under each plan) and a request that the borrower select a plan. Borrowers who fail to choose are automatically placed in the Standard Repayment Plan.

With **Standard Repayment**, borrowers make fixed payments of at least $50 a month for up to 10 years. The Standard Repayment Plan may result in the lowest amount of interest paid because the repayment period is shorter than it would be under the other plans. In general, the shorter the repayment period, the lower the total interest a borrower pays over the life of the loan.

With **Extended Repayment**, borrowers make fixed payments of at least $50 a month over a period generally ranging from 12 to 30 years, depending on the total amount borrowed.

For lower loan amounts, the repayment period may be less than 12 years because a borrower must make payments of at least $50 a month.

With **Graduated Repayment**, borrowers' payments start out low, then increase every two years. The repayment period generally will vary from 12 to 30 years, depending on the total amount borrowed. Under Graduated Repayment, the minimum monthly payment is either the interest that accumulates between payments or one-half the payment a borrower would make using the Standard Repayment Plan, whichever is larger. However, a borrower's monthly payment will never increase to more than one-and-one-half times what the borrower would pay under Standard Repayment. Generally, the amount a borrower repays over the life of the loan will be higher under Graduated Repayment than under Extended Repayment. However, Graduated Repayment has the advantage of offering lower monthly payments during the early portion of a borrower's career when the borrower's income is likely to be lower.

The **Income Contingent Repayment (ICR) Plan** allows Direct Stafford Loan borrowers to make monthly payments based on annual income and the amount of outstanding Direct Stafford Loans. **ICR is not an available repayment option for Direct PLUS Loans.**

To participate in the ICR Plan, a borrower (and, if married, the borrower's spouse) must sign a form that permits the Internal Revenue Service to inform the Department of certain tax return information, such as adjusted gross income (AGI). Each year, the Department uses the borrower's (and spouse's) information to calculate the borrower's monthly payment.

In certain circumstances, the Department can require alternative documentation of income from borrowers and, if married, their spouses. In fact, the Department will require alternative documentation from borrowers in their first year of repayment. This documentation includes pay stubs, canceled checks or, if these are unavailable, signed statements explaining the borrowers' income sources. Borrowers also can submit alternative documentation to request that their monthly payments be adjusted in special circumstances—for example, if the borrower (or spouse) becomes unemployed. See the *Repayment Book* for more information on alternative documentation.

The maximum repayment period under ICR is 25 years. If the borrower has made payments under the Standard Plan or the 12-year Extended Plan and then switches to the ICR Plan, those earlier payment periods are counted toward the 25-year repayment period. Earlier payment periods in other plans do not count toward the 25-year period. If the borrower has not repaid the loans after 25 years under ICR, the unpaid portion is discharged (canceled); however, currently the borrower must pay taxes on the discharged amount.

Monthly payments under ICR are recalculated annually. Borrowers pay the **lesser** of

- the amount that would have been paid if the borrower repaid the loan in 12 years, multiplied by an income percentage factor that varies with the borrower's annual income; or
- 20 percent of the borrower's discretionary income, which is the borrower's AGI minus the poverty level for his or her family size; the poverty level is determined by published U.S. Department of Health and Human Services guidelines.

If income is less than or equal to the poverty level for the borrower's family size, the monthly payment will be zero. If the calculated monthly payment is greater than zero but less than $5, borrowers are required to make a $5 monthly payment. If the monthly payment is calculated as more than $5, borrowers must pay the actual calculated payment amount.

The Department can designate the ICR Plan for a borrower who defaults.

The Department may provide an **alternative repayment plan** if the borrower can demonstrate satisfactorily that the other repayment plans' terms and conditions are not adequate for his or her exceptional circumstances. The Department may require evidence of exceptional circumstances.

The repayment period under an alternative repayment plan may not exceed 30 years from the date the Direct Loan enters repayment. The maximum time frame to repay does not include periods of deferment or forbearance. The terms under which interest is capitalized are the same as for the ICR Plan.

If a borrower is permitted to use an alternative repayment plan, the Department notifies him or her in writing of the plan's terms. The borrower has the option to accept the plan or choose another.

A borrower who decides the repayment plan selected no longer meets his or her needs can switch plans, as long as the new plan's maximum repayment period is longer than the period the borrower's loan has already been in repayment. The exception to this requirement is that a borrower can switch to ICR at any time.

A borrower repaying a defaulted loan under ICR may not switch plans unless he or she

- was required to make, and did make, a payment under ICR in each of the preceding three months; or
- was not required to make payments but made three reasonable and affordable payments in each of the preceding three months.

In either case, the borrower must submit a request to the Department to switch plans, and the Department must approve the request.

Any **refunds** the Department receives from a school that are due a borrower are applied against the borrower's outstanding principal. The Department notifies the borrower of any refunds.

Periods of authorized deferment or forbearance are not included in any repayment period. The actual number of payments a borrower makes or the fixed monthly repayment amounts may be adjusted over time to reflect changes in the variable interest rates.

FFEL Repayment Plans

FFEL lenders are required to offer the option of standard, graduated, or income-sensitive repayment to new Stafford or SLS borrowers. A new borrower is defined as someone who borrows on or after July 1, 1993 and who, at the time he or she borrows, has no outstanding balance on an FFEL borrowed before that date. The Secretary encourages lenders to offer this flexible range of repayment options to all other borrowers.

A lender must provide the choice of repayment plans to a borrower not earlier than six months before the date of the first scheduled loan payment. Even if a borrower does not choose a particular plan, the lender and borrower may agree (to the extent practicable) that the borrower will repay all of his or her FFELs under one repayment schedule.

A lender may agree to a standard, graduated, or income-sensitive repayment schedule for a new Stafford or SLS borrower, as long as the minimum annual payment and maximum time period requirements are met and as long as scheduled monthly payments cover at least the monthly interest charges. A borrower must respond to a lender's offer of a choice of repayment options within 45 days after the lender makes the offer, or he or she will be required to repay under a standard repayment schedule.

The **standard repayment plan** has a fixed monthly payment amount. This amount may vary annually if an adjustment in a borrower's variable interest rate necessitates a change in his or her repayment schedule.

The **graduated plan** has a varying monthly payment amount. This amount increases incrementally during the repayment period. If a graduated repayment schedule is established, however, no single payment can be scheduled to be more than three times greater than any other scheduled payment.

Under an **income-sensitive repayment schedule**, the amount of a borrower's installment payment is adjusted annually, based on the borrower's expected total monthly gross income. In general, the lender will request from the borrower information on his or her income no earlier than 90 days before the due date of the borrower's first payment. The income information must be sufficient for the lender to make a reasonable determination of what the borrower's payment amount should be. If a lender receives late notification that a borrower has dropped below half-time enrollment status at a school, the lender may request the income information earlier.

If a borrower reports income that a lender considers to be insufficient to establish monthly payments that would repay a loan within the maximum 10-year repayment period, the lender shall require the borrower to submit evidence showing the amount of the most recent total monthly gross income he or she has received from employment and from other sources.

A lender must grant forbearance to a borrower for a period of up to five years of payments if the income-sensitive monthly payment amount would prevent the borrower from repaying the loan within the maximum repayment period.

If a borrower chooses the income-sensitive plan but then does not provide any documentation that may be required for repayment under that plan, the lender may require that borrower to repay his or her loans under the standard repayment option.

Amendments of 1998

The Higher Education Amendments of 1998 (the Amendments of 1998) state that borrowers with graduated or income-sensitive repayment plans are exempt from minimum annual payment provisions, except that their payments must at least equal interest due. In addition, FFEL borrowers may change their repayment plans annually.

Amendments of 1998

The Amendments of 1998 also state that new FFEL borrowers after October 7, 1998 who accumulate outstanding loans totaling more than $30,000 may choose an extended repayment plan, with a fixed annual or graduated repayment amount paid over an extended period not to exceed 25 years.

REPAYMENT OF FEDERAL PLUS LOANS

There is no interest subsidy for PLUS Loan borrowers; the borrower is responsible for all interest that accrues on the loan while the student is in school and during periods of authorized deferment and forbearance.

The repayment period for a PLUS Loan begins on the date the last disbursement is made. The repayment period for a PLUS Loan ends no later than 10 years after repayment begins, excluding periods of authorized deferment and forbearance.

A PLUS Loan borrower's first payment of principal and interest is due within 60 days after the loan is fully disbursed, unless a deferment condition applies. See the following chapter on deferments for more information.

As stated in the discussion of Stafford Loans, the total scheduled payments to all holders of a borrower's Stafford Loans must be at least $600 per year. This minimum also applies to PLUS Loans. A borrower must pay a total of at least $600 per year on all of his or her PLUS Loans. If the borrower also received Stafford Loans as a student, he or she must pay a total of at least $600 per year on all of his or her PLUS Loans and student Stafford Loans combined. Monthly payment amounts may not be set at less than the amount of interest due. The lender may round up the loan payment to ensure that the payment is a multiple of $5. The lender may require a repayment period of less than 5 years, if necessary, to ensure that the above minimum payments are met.

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There is no prepayment penalty for PLUS Loans. A Direct Loan borrower may repay a Direct PLUS Loan under the standard, the extended, or the graduated repayment plan. An FFEL borrower may repay a Federal PLUS Loan under a standard, graduated, or an income-sensitive repayment schedule. With both types of PLUS Loans, minimum annual payment and maximum time periods for loan repayment must be met. The Department and lenders are encouraged to provide borrowers flexible repayment schedules as long as payments cover at least interest charges.

If, after a parent obtains a PLUS Loan, the student for whom the parent borrowed enrolls less than half time or does not enroll at all during the period for which the loan was intended, the entire amount is immediately due to the lender. It is the parent's responsibility to notify the lender of the date on which his or her child (for whom the parent has taken out a PLUS Loan) ceases to be enrolled at a participating school at least half time. The school also must promptly inform the lender when the student for whom the parent borrowed drops below half-time status.

CAPITALIZATION OF INTEREST

Capitalization is the addition of accrued interest to a borrower's loan principal. The interest accruing during the period from the date of first disbursement of the loan to the beginning of the borrower's enrollment period, and during the period from the date the first loan payment was due until it was made may be capitalized on the date repayment is scheduled to begin. Interest may be capitalized no more frequently than quarterly and any time repayment begins or resumes. Generally interest is capitalized when a borrower elects not to pay it (or fails to pay it) during forbearance or during in-school, grace, and deferment periods on unsubsidized Stafford Loans and PLUS Loans. (On subsidized Stafford Loans, interest is paid by the federal government during the last three periods mentioned.)

For Direct Loans, if monthly payments under the ICR Plan do not cover accruing interest, the unpaid interest is capitalized once each year. If capitalization increases the outstanding principal the borrower owes to 10 percent more than the original principal owed when the repayment period began, interest will continue to accumulate but will not be capitalized. The limit on the amount of interest capitalized under ICR does not apply during any periods of forbearance or during periods of deferment for unsubsidized Direct Loans.

If a borrower has agreed to pay interest during a deferment or forbearance period or during an in-school or grace period but fails to resolve a payment delinquency, the lender also may, after notifying the borrower, capitalize the delinquent interest and all interest accruing for the remainder of the period of deferment or forbearance. The borrower should understand that capitalization of interest increases the principal balance of the loan.

Amendments of 1998

The Higher Education Amendments of 1998 specify that interest capitalized on unsubsidized Stafford Loans shall not be counted in determining whether a borrower has exceeded annual or aggregate loan limits.

REPAYMENT DISCLOSURE STATEMENT AND BILLING

The Department and lenders must provide Stafford Loan borrowers with a repayment disclosure statement not less than 30 or more than 240 days before the borrower's first payment is due. In addition, the Department or a lender or other holder of the loan must notify the borrower—not later than 120 days after the borrower has left school—of the date repayment begins.

The repayment disclosure statement must provide the borrower the following information:

- the name and address of the lender and the address to which communications and payments should be sent;
- the estimated balance owed by the borrower on the loans covered by the disclosure statement as of the date on which repayment is due to begin (including capitalized interest, if applicable);
- the stated interest rate on the loan or loans, or the combined interest rate of loans with different rates;
- the amount of the loan, the insurance premium, the loan origination fee, and any other charges, and how they are to be paid;
- the repayment schedule, including when repayment will begin (due date of first payment), when accrued interest must be paid, and the number, amount, and frequency of required repayments;
- refinancing and consolidation options;
- for subsidized Stafford Loans, the projected total of interest charges the borrower will pay, if payments are made according to the repayment schedule; for unsubsidized Stafford Loans and PLUS Loans, sample projections of monthly payments at various interest rates and with interest capitalization; and
- a statement explaining the borrower's right to make prepayments. .

FFEL lenders must treat all of a borrower's loans of the same type as one loan for billing and deferment purposes. A borrower with several FFELs held by a single lender would, therefore, receive one billing notice for all of his or her loans; any deferment received for one of the loans would apply to all of the borrower's loans held by that lender. In addition, guaranty agencies must try to ensure that an FFEL borrower's loans are maintained by one lender, one loan holder, and one loan servicer, in order to reduce the number of agencies contacting the borrower. These efforts to simplify loan repayment are to be made with the cooperation of the borrower.

CHAPTER 5

Deferment and Forbearance

Under certain circumstances, a borrower may defer, or postpone, repaying a Stafford Loan. Deferments for subsidized Stafford Loans apply to both principal and interest. Deferments for unsubsidized Stafford Loans, PLUS Loans, and Federal Supplemental Loans for Students (Federal SLS) loans apply only to principal. Lenders also have the option to exercise forbearance on behalf of a borrower of a Stafford Loan, Federal SLS loan, or PLUS Loan. Forbearance postpones repayment unless the borrower instead requests a temporary payment reduction or extension.

LOAN DEFERMENT

Deferment periods are periods during which payment of the principal on a William D. Ford Federal Direct Loan (Direct Loan) or a Federal Family Education Loan (FFEL) is postponed and, for subsidized Stafford Loans, interest subsidy payments are made by the federal government. Once repayment begins, a borrower is entitled to a deferment if he or she meets the requirements for one. However, **a borrower must request a deferment either verbally or on a form the U.S. Department of Education (the Department) or lender provides. A borrower also must provide documentation to the Department or lender in support of the request.**

Stafford Loan Deferment Cites
Sec 428(b)(1); 34 CFR 685.204;
34 CFR 682.210

Deferment provisions on an existing promissory note cannot be removed. Future legislation may provide for new deferment conditions for a certain group of borrowers or for all borrowers.

A borrower who requests a deferment should continue making payments on a loan until he or she receives notification that the deferment has been approved. A deferment period begins on the date the qualifying condition, such as unemployment or military service, begins. A deferment may be granted retroactively. However, it cannot be granted retroactively to begin more than six months before the date the Department or the lender receives the request and supporting documentation.

The following deferments apply to all Direct Loan borrowers and "new" FFEL borrowers (Stafford Loan, PLUS Loan, and Consolidation Loan borrowers). A new borrower for deferment purposes is one whose first loan disbursement was made on or after July 1, 1993 and who, at the time the loan application was certified, had no outstanding balance on **any** FFEL made before that date.

Deferments are authorized for

- in-school student status;
- study in an eligible graduate fellowship program, including study outside the United States;
- study in an approved rehabilitation training program for the disabled;
- up to three years during periods in which the borrower is seeking and unable to find full-time employment; and
- up to three years during periods that the lender determines will cause the borrower economic hardship.

In-School Deferment

A deferment for **at least half time** study at an eligible school is commonly referred to as an "in-school" deferment. Any school that meets the definition of an eligible institution, whether or not it is currently participating in any student financial assistance (SFA) program, is an eligible school for the purpose of an in-school deferment. However, if a school has never participated in the SFA programs, the Department must determine whether the school meets the definition of an eligible institution before the school may certify an in-school deferment. Please refer to the *SFA Handbook: Institutional Eligibility and Participation* for additional information on institutional eligibility requirements.

Amendments of 1998

The Higher Education Amendments of 1998 provide that the Department or lender can determine the eligibility of a student for an in-school or rehabilitation training/graduate fellowship deferment based on the receipt of

- a request from the borrower accompanied by documentation of eligibility for the requested deferment;
- a newly completed loan application;

  Note that borrowers in the Direct Loan program are currently not receiving deferments upon receipt of new Master Promissory Notes. Institution of such a policy is in development.

- student status information, received by the Department or lender, that documents that the borrower is enrolled in a program on at least a half-time basis.

If a deferment is granted based on receipt of one of the second two items, the Department or lender must notify the borrower of the granting of the deferment and of his or her option to continue to pay on the loan.

Medical Interns and Residents

Since July 1, 1993, medical interns and residents have not qualified for in-school deferments because these borrowers are not considered to be maintaining an in-school status. However, medical interns or residents who are new borrowers may meet the regulatory provisions for an economic hardship deferment. (This type of deferment is not based on the borrower's status as a medical intern or resident.) Dental interns and residents continue to qualify for in-school deferments.

A borrower may receive deferments for study in a graduate fellowship program approved by the Department.

Borrowers with disabilities may receive deferments for study in a rehabilitation training program approved by the Department.

Note that student loan borrowers who were new borrowers between July 1, 1987 and June 30, 1993 who are currently enrolled in an eligible school **at least half time** are no longer required to take out a loan for the same period of enrollment for which an in-school deferment is sought in order to qualify for this type of deferment.

Amendments of 1998

Unemployment Deferment

The Higher Education Amendments of 1998 provide that unemployment deferments will be permitted with no proof additional to that currently required to be eligible for unemployment benefits. Additional paperwork may be required, though.

Amendments of 1998

A borrower seeking and unable to find full-time employment may obtain a deferment for up to three years. The borrower must submit the deferment request every six months, however, to affirm his or her continuing employment search.

Economic Hardship Deferment

Borrowers experiencing economic hardship may be eligible for deferments, not to exceed three years, but must submit a deferment request every 12 months to affirm continuing eligibility. Any of the following criteria qualifies a borrower for an economic hardship deferment:

- The borrower is receiving payment under a federal or state public assistance program;
- The borrower is working full time and is earning a total monthly gross income that does not exceed the greater of (1) the minimum wage or (2) the poverty line for a family of two, as determined in Section 673(2) of the Community Service Block Grant Act;
- The borrower is working full time and has an annual federal education debt burden that is at least 20 percent of the borrower's adjusted gross income. Defaulted loans are not included in the education debt burden unless the borrower has

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made satisfactory repayment arrangements. Additionally, the borrower's income minus the educational debt burden must be less than 220 percent of the greater of (1) the minimum wage rate or (2) the poverty line for a family of two.

- The borrower is not working full time, and the borrower's total monthly gross income from all sources is less than twice the greater of (1) the minimum wage rate or (2) the poverty line for a family of two. In addition, after deducting the total monthly payments on federal education loans, the borrower's income from all sources may not exceed the larger of (1) the minimum wage rate or (2) the poverty line for a family of two; or

- **For a Direct Loan borrower**, the borrower has been granted an economic hardship deferment under the FFEL Program or the Federal Perkins Loan Program for the same period for which the borrower is requesting an economic hardship deferment under the Direct Loan Program. **For an FFEL borrower**, the borrower has been granted an economic hardship deferment under the Direct Loan Program or the Federal Perkins Loan Program for the same period for which the borrower is requesting an economic hardship deferment.

Additional PLUS Loan Deferment

A PLUS Loan borrower whose loan was first made and disbursed before July 1, 1993 qualifies for a deferment when a dependent student for whom the parent borrowed the PLUS Loan is still dependent and meets **one** of the following conditions:

- The student is attending an eligible school full time;

- The student is attending full time an institution of higher education or a vocational school that is operated by an agency of the federal government;

- The student is enrolled in an eligible graduate fellowship program or in an approved rehabilitation training program for the disabled;

- For **Direct Loan borrowers only**, the student is attending an eligible school half time, and the student obtains a Direct Loan or an FFEL for the same enrollment period for which the parent is applying for a deferment; or

- For **FFEL PLUS borrowers only**, the student is attending an eligible school half time, and he or she meets **all** of the following conditions:

    Δ The student has an outstanding balance on a Stafford Loan or SLS loan borrowed on or after July 1, 1987 but before July 1, 1993.

Δ On the date the student signed the promissory note for that loan, he or she had no outstanding balance on another FFEL borrowed before July 1, 1987.

Δ The student obtains a Stafford Loan or Direct Loan for the same enrollment period for which the parent is applying for a deferment.

Other Types of Deferment (FFEL Only)

The other deferments available to borrowers with outstanding FFELs are

- serving a required internship or residency;
- temporarily totally disabled or required to provide full-time care for a disabled dependent;
- teaching in a designated teacher shortage area;
- serving in the Armed Forces, Peace Corps, Public Health Service, ACTION, or as a full-time volunteer for a tax-exempt organization;
- active duty in NOAA Corps;
- qualifying parental leave; and
- working mother.

DEFERMENT ELIGIBILITY ISSUES

A deferment may be granted retroactively. However, it cannot be granted retroactively to begin more than six months before the date the lender receives the request and the supporting documentation. For example, a borrower whose Stafford Loan has entered repayment returned to school full time from September 1996 to May 1997. The borrower requested a deferment and provided supporting documentation to the lender in July 1997. The lender may grant the deferment (provided that the borrower met all eligibility requirements for it), but the deferment can cover only the portion of enrollment from January 1997 (six months before the lender received the request and documentation) to May 1997 (the end of the qualifying period). If the borrower did not make payments between September 1996 and January 1997, the lender may apply a forbearance to that period to cure the delinquency.

A borrower whose loan is in default is **not** eligible for any deferments for that loan—unless the borrower has made payment arrangements acceptable to the Department or the lender **prior** to the payment of a default claim by a guaranty agency or the Department's Debt Collection Service (DCS).

Please note that a co-maker on a Federal PLUS or Federal Consolidation Loan may receive a deferment if both borrowers are simultaneously eligible for the same or different deferments.

The financial aid administrator may wish to reassure students with previous loans—if they are concerned about changes in deferment conditions—that deferments listed on their promissory notes cannot be changed; however, additional deferments that could apply to **all** borrowers may be added by future legislation.

Because the repayment period on a PLUS Loan begins on the date of last disbursement, a deferment covering such a loan would also begin on the date of the last loan disbursement.

DEFERMENT PROVISION CHART FOOTNOTES

The following footnotes apply to the deferment chart on page 67:

1. Includes student and PLUS Loan borrowers and Consolidation Loans made before November 1, 1983.

2. A borrower who, on the date he or she signs the promissory note, has no outstanding balance on (1) a Stafford Loan, SLS loan, or PLUS Loan made before July 1, 1987 for a period of enrollment beginning before July 1, 1987 or (2) a Consolidation Loan that repaid such a loan.

3. A new borrower who, on the date he or she applies for a loan, has no outstanding balance on a Stafford Loan, SLS loan, PLUS Loan, or Federal Consolidation Loan made before July 1, 1993 **and** whose first disbursement of the loan is made on or after July 1, 1993.

4. Consolidation Loans made on or after July 1, 1993 to borrowers who have no outstanding FFELs other than the FFELs to be consolidated.

5. A Stafford Loan or SLS loan borrower, or a PLUS Loan parent borrower whose loan was made or disbursed on or after July 1, 1987 and before July 1, 1993 and who, on the date he or she signed the promissory note, had no outstanding balance on an FFEL made before July 1, 1987 is eligible for deferment while the student is engaged in at-least-half-time study.

6. Deferment approval for a new borrower enrolled in a graduate or postgraduate, fellowship-supported program (that is, a Fulbright Fellowship) will extend for the duration of the fellowship period.

7. Public Law 102-26 authorized, for the period of April 9, 1991 to September 30, 1997, special Stafford Loan deferment and grace period provisions for reservists called up for active duty

Federal Family Education Loan Program Deferment Provisions

-		Federal Stafford Loans (subsidized & unsubsidized) & Federal Supplemental Loans for Students (SLS)			Federal PLUS Loans				Federal Consolidation Loans	
Deferment Condition*	Time Limit	Refinanced and Prior Borrowers[1] of Loans (before 7/1/87)	Prior Borrowers[2] (7/1/87-6/30/93)	New Borrowers[3]	Loans Made Before 8/15/83	Refinanced and Prior Borrowers of Loans (before 7/1/87)	Prior Borrowers[2] (7/1/87-6/30/93)	New Borrowers[3]	Prior Borrowers (before 7/1/93)	New Borrowers[4] (after 7/1/9[illegible])
Full-time study	None	Y	Y	Y	Y	Y	Y	Y	Y	Y
Half-time study[5]	None	N	Y	Y	N	N	Y	Y	Y	Y
Graduate fellowship study[6]	None	Y	Y	Y	Y	Y	Y	Y	Y	Y
Rehabilitation	None	Y	Y	Y	Y	Y	Y	Y	Y	Y
U.S. Armed Forces[7] or Public Health Service	3 years	Y	Y	N	Y	N	N	N	N	N
Nat'l Oceanic & Atmospheric Admin. (including Military and Public Health Service)	3 years	N	Y	N	N	N	N	N	N	N
Peace Corps	3 years	Y	Y	N	Y	N	N	N	N	N
ACTION	3 years	Y	Y	N	Y	N	N	N	N	N
Temporary total disability (borrower, spouse, or dependent)	3 years	Y	Y	N	Y	Y	Y	N	Y	N
Tax-exempt organization	3 years	Y	Y	N	Y	N	N	N	N	N
Teaching in teacher shortage area	3 years	N	Y	N	N	N	N	N	N	N
Eligible internship or residency program[8]	2 years	Y	Y	N	Y	N	N	N	N	N
Unemployment	2 years	Y	Y	N	Y	Y	Y	N	Y	N
Mother entering work force[9]	1 year	N	Y	N	N	N	N	N	N	N
Inability to secure full-time employment[10]	3 years	N	N	Y	N	N	N	Y	N	Y
Economic hardship[11]	3 years	N	N	Y	N	N	N	Y	N	Y
Parental leave[12]	6 months	Y	Y	N	N	N	N	N	N	N
PLUS borrower/dependent student in-school[13]	.....	N/A	N/A	N/A	Y	Y	Y	N	N/A	N/A

* Y: Deferment Applies N: Deferment Does Not Apply

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Military Deferment Cites
Sec. 428(b)(1)(M)(ii);
Sec. 427(a)(2)(C)(ii)

Eligible Internship Program Cite
34 CFR 682.210(g)

service in connection with Operation Desert Shield and Operation Desert Storm. These benefits are:

- Δ A military deferment for the duration of service in connection with Operation Desert Shield or Operation Desert Storm, even if the length of the deferment exceeds the maximum deferment authorized;
- Δ A six-month post-deferment grace period following an Operation Desert Shield or Operation Desert Storm military deferment; and
- Δ A one-time six-month post-deferment grace period following an in-school deferment for a borrower who received a military deferment and who later becomes eligible for an in-school deferment.

8. Periods of service in an eligible internship program; or serving in an internship or residency program leading to a degree or certificate awarded by an institution of higher education, a hospital, or a health-care facility that offers postgraduate training. Lenders are now required to grant forbearance to medical interns and residents who have expended their two-year residency deferments before they have completed their intern and residency requirements for borrowers whose loans were made subsequent to July 1, 1993.

9. A mother who

   - Δ has a preschool-age child;
   - Δ is entering or reentering the work force full time; and
   - Δ is being paid no more than $1 above the minimum wage.

10. A borrower who is seeking, but who is unable to find, full-time employment.

11. A borrower is considered to have an economic hardship if the borrower

   - Δ is receiving payment under a federal or state public assistance program;
   - Δ is working full time but earning an amount that does not exceed the greater of
     - ◊ the federal minimum wage, or
     - ◊ an amount equal to 100 percent of the poverty line for a family of two as determined according to section 673(2) of the Community Service Block Grant Act; or
   - Δ meets other regulatory criteria that take into account the borrower's debt-to-income ratio as a primary factor. Specifi-

cally, the borrower may qualify if

◊ he or she is working full time and has a federal educational debt burden (including defaulted loans) that is at least 20 percent of the borrower's total monthly gross income. The borrower's income, minus the education debt burden, must be less than 220 percent of the total monthly gross amount associated with minimum wage rate work or earnings equal to 100 percent of the poverty line for a family of two.

◊ he or she is not working full time and has a total monthly gross income that does not exceed two times either the minimum wage or the poverty line for a family of two and, after deducting the borrower's monthly education loan payments, the remaining amount of the borrower's income does not exceed either the minimum wage or the poverty line.

Δ has been granted an economic hardship deferment under either the Direct Loan or Federal Perkins Loan Program for the same period of time for which the FFEL economic hardship deferment is requested.

12. Period for which the borrower is pregnant, caring for his or her newborn child, or caring for his or her adopted child (immediately following adoption). The borrower may neither be attending school nor be gainfully employed and must have been enrolled at least half time at an eligible school at some time during the six months preceding the period of parental leave.

13. A PLUS Loan borrower whose loan was first made and disbursed before July 1, 1993 qualifies for a deferment when a dependent student for whom the parent borrowed the PLUS Loan is still dependent and meets one of the following conditions:

Δ The student is attending an eligible school full time.

Δ The student is attending full time at an institution of higher education or a vocational school that is operated by an agency of the federal government.

Δ The student is enrolled in an eligible graduate fellowship program or in an approved rehabilitation training program for the disabled.

Δ The student is attending an eligible school half time, and he or she meets **all** of the following conditions:

◊ The student has an outstanding balance on a Stafford Loan or SLS loan borrowed on or after July 1, 1987 but before July 1, 1993.

◊ On the date the student signed the promissory note for that loan, he or she had no outstanding balance on another FFEL borrowed before July 1, 1987.

◊ The student obtains a Stafford Loan or Direct Loan for the same enrollment period for which the parent is applying for a deferment.

Stafford Loan Forbearance Cites
Sec. 428(H)(e); Sec. 428(c)(3);
34 CFR 685.205; 34 CFR 682.211

FORBEARANCE

If a borrower (or endorser) is willing but financially unable to make the required payments on a Stafford or PLUS Loan, he or she may request that the Department or lender grant forbearance. Forbearance means permitting the temporary cessation of payments, allowing an extension of time for making payments, or temporarily accepting smaller payments than were previously scheduled.

Amendments of 1998

The borrower may elect to pay nothing during the forbearance period, or if he or she wishes to make reduced payments, the Department or lender may grant forbearance of principal, interest, or both. Prior to October 1, 1998, forbearance usually required a **written agreement** between borrower and lender. The Higher Education Amendments of 1998 no longer require forbearance requests to be in writing. When forbearance is granted, the borrower is always responsible for repayment of accrued interest charges. The borrower can pay the interest during the forbearance, or he or she can consent to have it capitalized and pay it later. While lenders do not have to grant forbearance, they are encouraged to do so if such action would likely prevent the borrower from defaulting.

If two persons are jointly liable for repayment (are co-makers) of a PLUS Loan or Consolidation Loan, the lender may grant forbearance only if **both** persons meet the conditions for a forbearance.

Amendments of 1998

The Higher Education Amendments of 1998 authorized the granting of forbearance for a period not to exceed 60 days after a borrower's request for deferment, forbearance, change in repayment plan, or consolidation of loans to allow for submission of supporting documentation or processing the request. These amendments also specify that interest accruing during the 60-day period cannot be capitalized. It is to be capitalized at the expiration of the forbearance period.

Mandatory Forbearance

The law specifies that a lender must grant this type of forbearance for both principal and interest (if requested) to a borrower or endorser in certain circumstances:

- If a borrower is serving in a medical or dental internship or residency program;

  Δ For Direct Loan borrowers, if the medical internship or residency or dental residency must be successfully completed before the borrower may begin professional practice or service, or if the borrower is in a medical internship or residency program or dental residency program leading to a degree or certificate awarded by an institution of higher education, a hospital, or health-care facility that offers postgraduate training, a forbearance will be granted.

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Δ For FFEL borrowers, if the borrower has already received the maximum two-year internship deferment or is not eligible for such a deferment because he or she is a new borrower, a forbearance must be granted. Forbearance in this instance must be cessation of all payments unless the borrower requests forbearance as an extension of time for making payments or requests a temporary reduction in payments. The forbearance is renewable at 12-month intervals while the borrower remains in the internship/residency program. The borrower must request forbearance in writing for each 12-month period.

- If a borrower's monthly SFA loan payments are collectively equal to or greater than 20 percent of the borrower's total monthly income, a forbearance must be granted in increments of up to one year each for periods that collectively do not exceed three years;
- If a borrower is serving in a national service position for which he or she received a national service education award under the National and Community Service Trust Act of 1993, a forbearance must be granted; the forbearance is renewable in yearly increments during the time the borrower serves in this capacity; or
- If a borrower is eligible for partial repayment of a loan under the Student Loan Repayment Programs administered by the Department of Defense under 10 U.S.C. 2171, a forbearance must be granted in yearly increments for as long as the borrower remains eligible.

Administrative Forbearance

Administrative forbearance does not require agreement from a borrower, and the Department or lender may grant it only under specified conditions authorized by law or by the Department in regulations. Upon notifying the borrower, the Department or lender may grant forbearance in circumstances including but not limited to

- when a deferment is granted and the Department or lender later learns that the borrower did not qualify for the deferment;
- the period for which payments are overdue at the beginning of a deferment period;
- from the period of time the borrower entered repayment until the first payment was due; and
- during a period of national military mobilization such as Bosnia and Operation Desert Storm (although supporting documentation is needed).

The Department or lender may grant administrative forbearance

- during a period not to exceed 60 days while the Department or lender is awaiting documentation of a borrower's death or total and permanent disability;

- for a period of delinquency at the time a loan is determined to be delinquent, sold, or transferred, as long as the borrower or endorser is less than 60 days delinquent on the loan at the time of sale or transfer;

- for periods necessary to determine a borrower's eligibility for loan discharge because of past attendance at a school that later closed or because of false certification of loan eligibility;

- for periods when a borrower's or endorser's eligibility for bankruptcy discharge is being determined; or

- for a period of delinquency that may remain after a borrower ends a period of deferment or mandatory forbearance and before the next due date is established.

When the Department notifies loan holders that specific geographical areas have been designated as natural disaster areas, the holders are strongly encouraged to grant administrative forbearance for up to three months to assist borrowers who have been affected by the disaster and who contact the holders and request assistance. A borrower in this situation is not required to sign a forbearance agreement or to submit supporting documentation. For example, victims of Hurricanes Marilyn and Opal were granted administrative forbearance. A Direct Loan borrower affected by a natural disaster does not have to sign a forbearance agreement but can simply call his or her Direct Loan Servicing Center to request a forbearance.

Mandatory Administrative Forbearance

FFEL Program regulations specify that the Department or lender must grant a mandatory administrative forbearance to FFEL borrowers in certain circumstances. Direct Loan Program regulations, with one exception noted below, also allow forbearance in these circumstances, although not titled "mandatory administrative forbearance":

- For up to three years when the borrower makes reduced payments because the effect of a variable interest rate change requires the extension of the maximum repayment term (under a standard or graduated repayment schedule), forbearance must be granted.

- For up to five years when the borrower makes reduced payments because an income-sensitive repayment schedule requires the extension of the maximum repayment term, forbearance must be granted. Income-sensitive payment plans are available only to FFEL borrowers; therefore, this type of forbearance is not available to Direct Loan borrowers.

- When the Department notifies the lender that exceptional circumstances exist (such as a local or national emergency or a military mobilization), a forbearance must be granted. Borrowers subject to a military mobilization must provide supporting documentation as proof.

INTEREST ACCRUING DURING DEFERMENT AND FORBEARANCE

Interest continues to accrue on all loans during deferment periods. Interest also accrues on all loans during forbearance. Unless a borrower qualifies for interest subsidy during deferment, he or she is responsible for paying this interest and may do so during deferment or forbearance. Or, a lender may agree to capitalize the interest (add it to loan principal) when repayment of the principal resumes.

Interest that accrues during a deferment or forbearance may only be capitalized at the expiration of the deferment or forbearance period. The borrower should be instructed to read his or her promissory note and to check with the lender or guaranty agency for details on capitalization of interest. If a borrower agrees to pay interest during deferment but fails to do so, the borrower will be considered delinquent.

Loan Discharge and Forgiveness

CHAPTER 6

A Stafford Loan may be discharged, or canceled, in certain circumstances: (1) if the borrower dies, (2) if the borrower is totally and permanently disabled, (3) if the loan is discharged in bankruptcy, (4) if the school closed before the student completed his or her program, or (5) if the school falsely certified or originated the loan. The closed school and false certification provisions apply only to loans made on or after January 1, 1986. The Higher Education Amendments of 1998 changed the conditions for a bankruptcy discharge and added loan forgiveness provisions.

DEATH AND PERMANENT DISABILITY DISCHARGES

If a William D. Ford Federal Direct Loan (Direct Loan) or Federal Family Education Loan (FFEL) borrower dies or becomes totally and permanently disabled, the borrower's obligation to repay the loan is canceled, and the loan holder is not permitted to collect the loan from an endorser or from the borrower's estate. Certification of total and permanent disability from a qualified physician is required for loan cancellation. A Federal PLUS Loan borrower's debt will be canceled if the student for whom the parent borrowed the PLUS Loan dies. An endorser of a loan canceled because of death or total disability is not obligated to repay the loan. However, if a couple consolidates loans jointly, the death or total disability of one of the borrowers does not relieve the other of the repayment responsibility. If both borrowers have a condition (not necessarily the same one) under which they qualify for loan cancellation, the loan may be canceled.

Death and Permanent Disability Discharge Cites
34 CFR 685.212; 34 CFR 682.402(b), (c)

A borrower is not considered totally and permanently disabled based on a condition that existed when the borrower applied for the loan, unless the borrower's condition substantially deteriorated after the loan was made.

BANKRUPTCY DISCHARGE

A borrower may also have his or her loan discharged in bankruptcy. Prior to the Higher Education Amendments of 1998, a federal student loan was not dischargeable in bankruptcy unless

- the loan had been in repayment for at least 7 years, excluding any periods of deferment or forbearance ("suspended repayment") or

- the bankruptcy court had determined that repayment of the loan would cause an undue hardship to the debtor and his or her dependents.

Amendments of 1998

For borrowers who filed for bankruptcy after October 7, 1998, a federal student loan is not dischargeable unless the bankruptcy court has determined that repayment of the loan would cause an undue hardship to the debtor and his or her dependents. A loan is no longer dischargeable in bankruptcy no matter how long it has been in repayment.

Closed School Discharge Cites
34 CFR 685.213; 34 CFR 682.402(d)

False Certification Cites
34 CFR 685.214; 34 CFR 682.402(e)

Unauthorized Payment Cites
34 CFR 685.214; 34 CFR 682.402(e)

OTHER LOAN CANCELLATION PROVISIONS

Closed School Discharge

A borrower's obligation to repay an FFEL received on or after January 1, 1986 or any Direct Loan will be canceled if the student (the student borrower or the student on whose behalf a parent obtained a PLUS Loan) was unable to complete his or her program of study because the school closed or if the student withdrew from the school not more than 90 days before the school closed. This 90-day period may be extended on a case-by-case basis if an extension is deemed appropriate by the Department.

False Certification and Unauthorized Payment

A borrower's obligation to repay may be canceled if the school

- falsely certified the student's loan eligibility by certifying that he or she had the ability to benefit from its training;
- signed the borrower's name without borrower authorization on the loan application, promissory note, loan check, or electronic funds transfer (EFT) authorization; or
- certified the eligibility of a student who, because of a physical or mental condition, age, or criminal record, would not meet employment requirements in the occupation for which the training program supported by the loan was intended.

If any of the above conditions occurs, the loan may be discharged under this provision.

In the case of a borrower requesting a discharge because the school signed his or her name on the loan application or promissory note, the borrower must state that the signature on either of those documents was not his or her own. The borrower also must provide five different signature specimens, two of which must be from no earlier or later than one year before or after the date of the contested signature. (These signature specimens are also required under the condition described in the next paragraph, unauthorized signature for electronic funds transfer.)

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In the case of a borrower's claiming false certification based on unauthorized signature on a loan check or an EFT authorization, the borrower must certify that he or she did not endorse the loan check or sign the EFT authorization and that he or she did not authorize the school to do so. The borrower must state that he or she did not receive the proceeds of the contested disbursement either through actual delivery of the loan funds or by a credit to the school's account. Please see the prior paragraph for the types of proof required.

Failure to Refund Loan Proceeds Cite
Sec. 437(c)(1)

Interest and collection fees, as well as loan principal, will be discharged if cancellation is granted. The Department will attempt to collect from the school the loan amount discharged, including any refund owed the student.

A closed school or false certification discharge also relieves any endorser of the obligation to repay the loan.

Failure to Refund Loan Proceeds

If an institution fails to refund loan proceeds which it owes to the Department or to the student's lender, the Secretary shall discharge the borrower's liability on the loan by repaying the loan and shall pursue any claim available to the borrower against the institution.

EFFECT ON A BORROWER'S SFA ELIGIBILITY

An applicant who applies for SFA funds and who included a defaulted federal student loan that is **nondischargeable** in his or her bankruptcy schedules will be considered ineligible for further federal student aid until he or she resolves the default. Such a borrower can negotiate a satisfactory repayment arrangement with the holder of the debt. The holder can set the terms of the satisfactory repayment arrangement.

For those loans which could be discharged in bankruptcy before October 7, 1998, if default occurred prior to the borrower's bankruptcy filing and the loan was discharged in the bankruptcy, the applicant is eligible for further SFA funds. Because the borrower is no longer obligated to repay the debt, he or she does not have to establish satisfactory repayment arrangements. This provision does not apply to those loans dischargeable in bankruptcy after October 7, 1998.

The Department no longer requires as a condition for SFA eligibility reaffirmation of a loan that was discharged in bankruptcy or for total and permanent disability. However, a borrower whose loan debt was canceled due to total and permanent disability and who later applies for a Stafford Loan must

- provide a physician's certification that the borrower is able to engage in "substantial gainful activity" such as working or attending school, and
- sign a statement affirming that the new loan for which the borrower is applying cannot be canceled in the future based on present impairment (unless the borrower's condition substantially deteriorates).

If a borrower's defaulted loans are discharged under the false certification or closed-school provisions, the borrower (if otherwise eligible) regains eligibility for SFA funds. In addition, any adverse credit history will be deleted from credit-reporting agencies' records. The period of study the student was unable to complete because of a school's closing will not be counted in calculating the student's eligibility for additional student financial assistance.

There are some defaulted loans on which the Department or the appropriate guaranty agency has suspended collection activity after several unsuccessful attempts to collect these loans. If a borrower of such a loan wishes to borrow again under the Direct Loan or FFEL program, he or she must reaffirm the previous loan amount. In addition, the borrower must make satisfactory repayment arrangements on the defaulted debt.

Reaffirmation is the legal acknowledgment of the loan. Legally acknowledging the loan may require the borrower to

- sign a new promissory note or repayment schedule for the loan or

- make a payment on the loan.

When loans are reaffirmed, they count toward the borrower's aggregate loan limits.

PAYMENTS MADE AFTER DISCHARGE

If a lender receives payments on a borrower's student loan account after the guaranty agency notifies the lender of a discharge (on the basis of total and permanent disability, death, bankruptcy, false certification, or school closing), all of these payments must be returned to the sender. At the same time, the lender must notify the borrower that there is no further loan obligation.

LOAN FORGIVENESS

Amendments of 1998

The Higher Education Amendments of 1998 established a Teacher Service Forgiveness program for new Stafford Loan borrowers who did not have an outstanding balance on October 7, 1998. An eligible Stafford Loan borrower may not be in default and must be employed as a full-time teacher for 5 consecutive years in a school that qualifies for loan cancellation under the Perkins Loan Program (see the *SFA Handbook: Campus-Based Programs Reference* for details about Teacher Service Forgiveness in the Perkins Loan Program). Under this program, secondary school teachers must be certified as teaching in a subject area relevant to their academic major; elementary teachers must be certified as having knowledge or teaching skills in reading, writing, mathematics, and other areas of the elementary curriculum. The amount to be forgiven cannot exceed $5,000 of the aggregate loan amount outstanding after completion of the borrower's fifth year of teaching.

The amendments also established a new forgiveness program for childcare providers, but this program depends on appropriation from Congress. Such funding was not received for the 1999-2000 academic year. Please continue to check the *Information for Financial Aid Professionals* web page for additional details about these loan forgiveness programs.

REPAYMENT BY THE U.S. DEPARTMENT OF DEFENSE

Currently, if a student borrower decides to serve as an enlisted person in certain specialties in the U.S. Army, the Army Reserves, the Army National Guard, or the Air National Guard, the Department of Defense (as an enlistment incentive) will repay a portion of his or her loan. For more information, a student should contact his or her local Army or Air National Guard recruiting office. This is a recruitment program and does not pertain to an individual's prior service. **This program is not an FFEL cancellation provision.**

Loan repayment under this program is made directly to the lender and is not considered financial aid. Such repayment is considered as student income when loan eligibility is calculated.

BORROWER DEFENSES – DIRECT LOANS ONLY

Direct Loan Borrower Defenses Cite
34 CFR 685.206

A borrower may assert a defense against repaying a Direct Loan based on any act or omission by his or her school that would give rise to a cause of action against the school under applicable state law. The borrower may assert the defense in any proceeding to collect on a Direct Loan. Collection proceedings include, but are not limited to, tax-refund offset proceedings, wage garnishment proceedings, salary offset proceedings for federal employees, and credit bureau reporting proceedings.

If the borrower's defense is successful, the Department notifies the borrower in writing that he or she is relieved of the obligation to repay all or part of the loan and associated costs and fees. The Department may give the borrower further relief, as deemed appropriate, based on the borrower's circumstances. Further relief may include but is not limited to

- reimbursing the borrower for amounts paid toward the loan voluntarily and through enforced collection;
- determining that the borrower is not in default on the loan and is eligible to receive assistance from SFA funds; and
- updating information to credit bureaus in cases where the Department had made adverse credit reports about the borrower's Direct Loan.

A successful Direct Loan borrower's defense may result in the Department's requiring the school to repay the funds and purchase the loan.

Delinquency and Default

CHAPTER 7

Most borrowers repay their loans on time, but some do fall behind on their payments for a variety of reasons. A financial aid administrator should advise a student to maintain contact with the lender or loan servicer to avoid delinquency and default if the borrower has repayment problems.

DELINQUENCY

When a scheduled payment on a Federal Stafford Loan, Federal Supplemental Loans for Students (SLS) loan, or Federal PLUS Loan is not made on time, the loan becomes delinquent. To prevent defaults, the U.S. Department of Education (in the case of Direct Loans) or the lender (in the case of FFELs) is required to repeatedly attempt to contact a delinquent borrower by phone and mail and to use skip-tracing techniques to locate the borrower if his or her whereabouts become unknown. For FFELs, lenders must request the guaranty agency's assistance to resolve repayment problems. The Department must use the assistance of other government agencies to locate a Direct Loan borrower. If a borrower is late in making a payment, the Department or the lender may require the borrower to pay a late charge. The borrower will also be required to pay collection costs, such as collection agency fees, attorney's fees and court costs, if required in the borrower's promissory note.

DEFAULT

For loans that entered delinquency between April 7, 1986 and October 6, 1998, inclusive, default occurs when a loan repayable in monthly installments becomes 180 days delinquent. For a loan repayable in less frequent installments, default occurs when the loan becomes 240 days delinquent.

For loans that enter delinquency on or after October 7, 1998, default occurs when a loan repayable in monthly installments becomes 270 days delinquent. For a loan repayable in less frequent installments, default occurs when the loan becomes 330 days delinquent.

Amendments of 1998

CONSEQUENCES OF DEFAULT

If the borrower's delinquency persists, the lender must accelerate the loan; that is, the loan holder must demand—using a "final demand" letter—the entire balance of the loan in one payment. In the case of an FFEL, the lender must also file a default claim with the

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guaranty agency on a seriously delinquent account that is more than 270 days delinquent (or 330 days delinquent for a loan repayable in installments less frequent than monthly). Lender default claim requirements now require lenders to submit proof to guarantors that attempts to locate a borrower included contacting the school. Guarantors then must certify that diligent attempts were made to locate the borrower, including contacting the school, when reinsurance requests are submitted to the Department. The guaranty agency reviews the lender's collection efforts before paying the lender's default claim. If the guaranty agency pays the default claim, the agency must continue collection efforts.

Before reporting the default to a national credit bureau or assessing collection costs, the guaranty agency will provide the borrower with

- a written notice of its proposed actions,
- an opportunity to enter into a repayment agreement, and
- an opportunity for an administrative review of the status of the loan.

Once the guaranty agency notifies a credit bureau of a borrower's default, the credit bureau may provide inquirers with that information for up to seven years from the date the loan is first reported as a default; for up to seven years from the date the guaranty agency pays the default claim; or, for a borrower who enters repayment after default and again allows the loan to default, up to seven years from the date the loan enters default the second time.

Collection efforts by the guaranty agency include a series of letters and phone calls to persuade the borrower to enter repayment on the defaulted loan and may also include mandatory assessment of collection costs, garnishing up to 10 percent of the defaulter's disposable pay, withholding ("offsetting") part or all of a defaulter's federal and/or state income tax refund and other payments that the federal government might otherwise make to the borrower, and filing suit against the borrower.

The guaranty agency must provide counseling and consumer information to a borrower by the 10th working day after the agency receives a request from the lender for preclaims assistance (preclaims assistance is the collection assistance the guarantor makes available to the lender no later than the 90th day of delinquency, that is, prior to the loan's defaulting). As part of the counseling, the guaranty agency must inform the borrower of preventive measures to avoid default, such as income-sensitive or graduated repayment, deferment, forbearance, and consolidation of delinquent loans under the FFEL Program or the Federal Direct Consolidation Loan Program.

Wage Garnishment Requirements Cites

Sec. 488A; 34 CFR 682.410(b)(10)

A guaranty agency may add collection costs in an amount not to exceed 18.5 percent of the outstanding principal and interest to a defaulted FFEL that is included in a Federal Consolidation Loan or Direct Consolidation Loan.

The Department or guaranty agency must initiate administrative wage garnishment action not later than 225 days after it pays a default claim. If the borrower has insufficient income to garnish but does have assets from which the debt can be satisfied, the borrower's loan account must be assigned to the Department's Debt Collection Service (DCS) for litigation.

All administrative wage garnishments must be performed in accordance with the procedures described in the Higher Education Act, student financial assistance (SFA) regulations, and specific guidance the Department has issued. If the defaulter is sued, wage garnishment may be included in the court's ruling. The Higher Education Technical Amendments of 1991 (P.L. 102-26) provided for continuation of garnishment, offset action, or a lawsuit regardless of any federal or state statutes of limitation that might otherwise have applied to such collection efforts. The Higher Education Amendments of 1992 permanently abolished statutes of limitation that might otherwise have applied. The abolition applies to all pending cases and outstanding debts, as well as to current cases.

Ineligibility for Additional SFA Funds

A student with a defaulted loan is rendered ineligible for all SFA funds at the time the default occurs (that is, for loans in which the first day of delinquency was on or after October 7, 1998, once the loan reaches 270 days of delinquency for loans repayable monthly and 330 days for loans repayable less frequently). Even if a defaulted borrower's debt has been determined to be totally uncollectible and was closed out (written off) with the principal amount being reported to the Internal Revenue Service as taxable income, the borrower is still considered to be in default and is ineligible for federal student aid.

The *Institutional Student Information Record* (ISIR), *Student Aid Report* (SAR), or SAR Information Acknowledgment alerts a school that a borrower is in default on a federal education loan and is not eligible for federal financial aid. If the borrower has made satisfactory repayment arrangements, these documents will indicate the borrower is eligible for a loan but will include a warning that if scheduled payments are not made on the previous loan, future federal student aid will be denied. This information should be reconciled with documentation from the guaranty agency (as appropriate) that states that repayment requirements continue to be satisfied. Schools must keep this documentation in the student's file. Once the information is reconciled, the student's eligibility for federal student aid funds can be evaluated.

A borrower's financial history, which includes information about default, results from a data match between the Central Processing

System (CPS), which processes data from the *Free Application for Federal Student Aid* (FAFSA), and the National Student Loan Data System (NSLDS). For more information on the NSLDS, see the *SFA Handbook: Student Eligibility*.

Ineligibility for Deferment

Once a student is determined to be in default on a Direct Loan or a guaranty agency pays an FFEL lender's default claim, the borrower is ineligible for any type of deferment on the loan, and he or she will not be able to receive any federal financial aid until the obligation is discharged or until the borrower has made satisfactory payment arrangements with the lender, the guarantor, or the Department. A lender or guarantor may grant forbearance to a borrower whose loan is delinquent or in default. Even after a borrower makes satisfactory repayment arrangements to repay the defaulted loan in order to regain eligibility for SFA funds, the borrower must continue to make scheduled payments on the defaulted loan. If the borrower is unable to do so while attending school, he or she should request forbearance on the loan.

Additional Consequences of Default

The Department may designate the Income Contingent Repayment Plan for a borrower who defaults on a Direct Subsidized or Unsubsidized Loan or a Direct Subsidized or Unsubsidized Consolidation Loan. (The Income Contingent Repayment Plan is not available for Direct PLUS Loans and Direct PLUS Consolidation Loans.)

If, after a borrower has defaulted, he or she receives a loan discharge under the bankruptcy, total and permanent disability, closed school, or false certification discharge provision, the loan is no longer considered to be in default, and the borrower is eligible for further federal student aid.

REINSTATEMENT OF ELIGIBILITY AFTER DEFAULT

If a borrower and guaranty agency reach a compromise agreement to settle the debt for less than the total amount due on an FFEL, the borrower may be eligible for additional federal student aid once the compromised amount of the debt is paid.

A loan on which collection activities have ceased because the Department's Debt Collection Service or guaranty agency have not been able to collect is still considered a defaulted loan for purposes of borrower eligibility. A borrower who wished to borrow Stafford/PLUS loans again must reaffirm the loan amount and make satisfactory repayment arrangements. If the borrower chooses to reaffirm his or her defaulted loan obligation and makes satisfactory payment arrangements to repay the debt (six on-time, reasonable and affordable, consecutive, voluntary monthly payments), he or she may regain eligibility for SFA funds. A student who resolves a default by consolidating a defaulted Direct Loan or FFEL also regains eligibility once the defaulted loan has been paid in full by the Consolidation Loan or Direct Consolidation Loan. See Chapter 8 of this reference for more information on consolidating defaulted Direct Loans and/or FFELs.

The Department or guaranty agency must inform a defaulted borrower who has made six payments as described above of the possibility of loan rehabilitation (after the borrower makes six more payments). Reinstatement of eligibility does not bring a loan out of default, and the borrower is not eligible for deferment; however, loan rehabilitation accomplishes both.

If a student regains eligibility during an enrollment period (if the sixth payment under a satisfactory repayment arrangement is made after the start of an enrollment period, for example), the student regains eligibility for the entire period of enrollment (usually an academic year) in which he or she regained eligibility status.

If a borrower has made satisfactory repayment arrangements to repay a defaulted loan, his or her SAR will indicate that the borrower is eligible but will include a warning that if scheduled payments are not made on the loan, future federal student aid will be denied. The financial aid administrator may reconcile the SAR with official paperwork from the lender stating that the default has been satisfied. This documentation must be kept in the student's file. The financial aid administrator may then determine the student's eligibility for a loan.

LOAN REHABILITATION

Loan rehabilitation is available to a borrower who has defaulted on a Direct Loan or FFEL and who meets certain conditions. The law requires the guaranty agency to provide a loan rehabilitation program that will allow a defaulter the opportunity to make 12 "reasonable and affordable" consecutive monthly payments on a defaulted Direct Loan or FFEL, respectively. The guaranty agency must determine what constitutes a reasonable and affordable payment amount on a case-by-case basis, after examining the borrower's financial information. When establishing a reasonable and affordable payment amount, a guarantor may not require a set minimum monthly payment amount. The guarantor is required to document its determination of the appropriate payment amount only if the payment is less than $50. Each borrower must receive a written statement specifying what the reasonable and affordable payment amount is as determined by the agency and must be granted an opportunity to object to the terms.

After a borrower makes 12 consecutive monthly payments (which may include the six consecutive monthly payments necessary to regain SFA eligibility) on the defaulted loan, the guaranty agency (or the Department, if the Department is holding the loan) will decide if the borrower is a good candidate for loan rehabilitation. If so and if the loan is an FFEL, the loan holder will try to sell the loan to an eligible

FFEL lender. A borrower who has made more than 12 consecutive, voluntary monthly payments at the time he or she requests rehabilitation is immediately eligible for consideration, if those payments were determined to be reasonable and affordable and if they were made on time. Payments secured from a borrower on an involuntary basis, through means such as income tax offset, wage garnishment, or income or asset execution, cannot be counted towards the borrower's required 12 consecutive monthly payments.

Once eligible for rehabilitation, the debtor must continue to make payments while the guaranty agency processes the rehabilitation and the guaranty agency transfers the loan to a lender. Because of loan processing procedures, the borrower may have to submit more than 12 payments before the loan is rehabilitated.

Once a loan is rehabilitated, the borrower regains eligibility for any remaining deferment benefits. For example, if a borrower who has a loan that is eligible for up to three years of unemployment deferment receives two years of this deferment, later defaults, then rehabilitates the loan, he or she is eligible for one more year (not another full three) of unemployment deferment after rehabilitation.

The holder of the rehabilitated loan must promptly notify at least one credit bureau of the loan's rehabilitated status. The notification of credit bureaus is an important benefit to borrowers, because the borrower's record of default is removed from his or her credit history. A borrower with questions about loan rehabilitation should contact the agency holding the defaulted loan.

A borrower who wishes to rehabilitate or consolidate an FFEL on which a court judgment has been secured must sign a new promissory note prior to the sale of the FFEL to an eligible lender. (The Department has previously provided guidance stating that a guaranty agency may not exclude borrowers with judgment accounts from consolidating their defaulted loans.) Because a judgment is not always repaid under the original terms and conditions of the FFEL promissory note, the judgment is not viewed as an eligible FFEL. Therefore, rehabilitation or consolidation of a loan on which a court judgment has been secured requires the guaranty agency to vacate the judgment and to convert the judgment debt into an eligible FFEL. This conversion takes place when the borrower makes a new promise to repay the debt by signing an FFEL promissory note for the amount due on the judgment.

Consolidation Loans

CHAPTER 8

Schools must present refinancing and consolidation options to student borrowers during exit counseling. Once a borrower leaves school, he or she may consider consolidation as an option to make repayment easier. The student must contact the Loan Origination Center for Direct Loan Consolidation or his or her lender(s) for Federal (FFEL) Consolidation to request these options, and any agreement to refinance or consolidate loans is between the borrower and the Department or the lender, respectively. A student should keep in mind that loan consolidation does not increase Federal Stafford Loan limits; aggregate loan limits must include any portion of a borrower's Consolidation Loan used to repay a Stafford Loan. Eligibility requirements, interest rates, and the administration of Consolidation Loans are different for the Direct Loan and FFEL programs. This chapter is split into two parts – Direct Consolidation Loans and Federal (FFEL) Consolidation Loans to better explain each program's requirements.

Direct Consolidation Loans

Direct Consolidation Loans allow William D. Ford Federal Direct Loan (Direct Loan) and Federal Family Education Loan (FFEL) borrowers to combine one or more federal education loans and create one Direct Loan with one monthly payment. Borrowers can extend their repayment periods, thereby reducing monthly payments and possibly lowering the interest rate.

Subsidized SFA loans can be consolidated into a Direct Subsidized Consolidation Loan. Unsubsidized SFA loans, as well as certain loans authorized under Titles VII and VIII of the Public Health Service Act (administered by the U.S. Department of Health and Human Services), can be consolidated into a Direct Unsubsidized Consolidation Loan. Direct PLUS Loans and Federal PLUS Loans can be combined into one Direct PLUS Consolidation Loan.

Even if borrowers have more than one loan type of loan, they receive only one Direct Consolidation Loan and make just one monthly payment. However, the U.S. Department of Education (the Department) will track the parts of the Direct Consolidation Loan separately because the type of loan affects interest rates, interest subsidies, and deferment eligibility. (For example, a borrower will not be required to pay interest during a deferment on the subsidized portion of a Direct Consolidation Loan.)

Borrowers must consolidate at least one Direct Loan or FFEL but generally are not required to consolidate all their outstanding federal education loans. For example, a borrower may choose not to consolidate a loan with an interest rate lower than a Direct Consolidation Loan's interest rate. A borrower may not, however, exclude SFA loans in default unless he or she has met the requirements for regaining SFA loan eligibility.

Nonfederal loans made by state or private lenders are not eligible for consolidation.

LOAN LIMITS

There are no minimum or maximum loan limits that apply to Direct Consolidation Loans. A Direct Consolidation Loan's principal balance equals the sum of the amounts the Department pays to the holders of the loans being consolidated. The Department pays each holder the amount necessary to pay in full the loan being consolidated.

Consolidation does not increase a borrower's aggregate loan limits. The aggregate limit for undergraduate and graduate/professional students must include any portion of a Direct Consolidation Loan used to repay a Direct Subsidized or Unsubsidized Loan, a subsidized or unsubsidized Federal Stafford Loan, or a Federal Supplemental Loans for Students (SLS) Loan.

INTEREST RATES

Direct Consolidation Loan interest rates are variable and are determined on June 1 each year. The rates are actually adjusted annually on July 1 and apply to the following 12-month period from July 1 to June 30.

The following formulas can be used to calculate the variable interest rate for Direct Subsidized and Unsubsidized Consolidation Loans disbursed between July 1, 1995 and January 31, 1999:

- For loans first disbursed between July 1, 1995 and June 30, 1998 that are in **in-school, grace, or deferment periods,** the interest rate equals the bond equivalent rate of the 91-day Treasury bills auctioned at the final auction before June 1, plus **2.5** percentage points. The rate for these loans for July 1, 1999 through June 30, 2000 is 7.12 percent.

- For loans first disbursed between July 1, 1995 and June 30, 1998 that are **not in in-school, grace, or deferment periods,** the interest rate equals the bond equivalent rate of the 91-day Treasury bills auctioned at the final auction before June 1, plus **3.1** percentage points. The maximum interest rate is 8.25 percent. The rate for these loans for July 1, 1999 through June

30, 2000 is 7.72 percent. **Note** that this formula also applies to *any* Direct Subsidized and Unsubsidized Consolidation Loan first disbursed before July 1, 1995, in *any* period.

- For Direct Subsidized and Unsubsidized Consolidation Loans first disbursed between July 1, 1998 and September 30, 1998 that are in **in-school, grace, or deferment periods**, the interest rate is equal to the bond equivalent rate of 91-day Treasury bills sold at the final auction before June 1, plus **1.7** percentage points. The rate is determined on June 1 each year and will not exceed 8.25 percent. The rate for these loans for July 1, 1999 through June 30, 2000 is 6.32 percent.

- For Direct Subsidized and Unsubsidized Consolidation Loans first disbursed between July 1, 1998 and September 30, 1998 that are **not in in-school, grace, or deferment periods,** the interest rate equals the bond equivalent rate of 91-day Treasury bills sold at the final auction before June 1, plus **2.3** percentage points. The maximum interest rate is 8.25 percent. The rate for these loans for July 1, 1999 through June 30, 2000 is 6.92 percent.

- For Direct PLUS Consolidation Loans first disbursed on or after July 1, 1998 and before October 1, 1998, the interest is equal to the bond equivalent rate of 52-week Treasury bills sold at the final auction before June 1, plus **2.1** percentage points. The rate will not exceed 9 percent. **This interest rate calculation also applies whether or not a loan is in an in-school, grace, or deferment period.** The rate for these loans for July 1, 1999 through June 30, 2000 is 7.72 percent.

- The Higher Education Amendments of 1998 established a temporary interest rate formula for **all** Direct Consolidation Loans for applications received between October 1, 1998, and January 31, 1999. The interest rate on these loans was variable and was based on the bond equivalent rate of 91-day Treasury bills auctioned at the final auction held before June 1 (and actually adjusted on July 1), plus 2.3 percent, not to exceed 8.25 percent. The rate for these loans for July 1, 1999 through June 30, 2000 is 6.92 percent.

Amendments of 1998

The Higher Education Amendments of 1998 also established an interest rate formula for **all** Direct Consolidation Loans for applications received from February 1, 1999 through June 30, 2003. The interest rate for these loans is fixed for the life of the loan at the lesser of the weighted average of the interest rates of the loans being consolidated, rounded to the nearest higher one-eighth of one percent **or** 8.25 percent.

Amendments of 1998

During in-school, grace, and deferment periods, the Department does not charge borrowers interest on Direct Subsidized Consolidation Loans. Interest is charged during forbearance, however. Interest is

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charged on Direct Unsubsidized Consolidation Loans and Direct PLUS Consolidation Loans during all periods.

Borrowers may pay the interest for which they are responsible during applicable periods or postpone paying it and have the interest capitalized (added to the principal owed).

ADDITIONAL BORROWING COSTS

Borrowers are not charged a loan fee for consolidating their loans.

The Department can charge late fees on all or part of any payments the borrower does not pay within 30 days of the due date. The late charge may not exceed six cents for each dollar of each late installment. **Currently, however, the Department is not charging late fees.**

On a Direct Consolidation Loan **not** in default, the Department may require the borrower or endorser to pay any costs, in excess of routine collection costs, incurred in collecting installments not paid when due. Such charges do not include the routine costs of preparing letters or notices or making local or long-distance telephone calls. An example of a non-routine collection cost is the cost of processing checks returned for insufficient funds. On a Direct Consolidation Loan in default, the Department may require the borrower or any endorser to pay additional costs.

ELIGIBILITY

Borrowers must send a Direct Consolidation Loan application to the Department's Loan Origination Center. A single consolidation application is used, even if the borrower is consolidating more than one type of loan, such as subsidized student loans and unsubsidized student loans or subsidized student loans and PLUS Loans (if the borrower has a loan for a dependent student as well as a loan for him- or herself). The publication *Direct Consolidation Loans: A Guide* explains the application process in detail.

Borrowers may add preexisting eligible loans to a newly created Direct Consolidation Loan without submitting a new application; borrowers simply submit a request to the Department within 180 days after the loan is originated (see "Subsequent Consolidation" on page 94).

There are two types of consolidation, "regular" and "in-school." Basically, however, borrowers may consolidate loans any time after they are fully disbursed. Consolidation eligibility criteria vary somewhat depending on when borrowers consolidate and whether they are in default. All Direct Consolidation Loan borrowers, however, receive the same deferment, forbearance, and discharge provisions available to borrowers of other Direct Loans. **Note that a borrower who**

consolidates a loan that is in deferment must reapply for the deferment once the loan is consolidated.

Borrowers who were enrolled or accepted for enrollment were prohibited from consolidating their loans under the Direct Loan Program if they had FFELs and/or Perkins Loans and their applications were received from October 1, 1998 through January 31, 1999.

Regular Consolidation

A borrower can consolidate when his or her loans are no longer in an in-school period, such as during the borrower's grace period, when a loan is in repayment, or even when a loan is in default (in certain circumstances, described below). A borrower consolidating at least one fully disbursed Direct Loan or FFEL, none of which is in an in-school period, may consolidate under what is known as the regular Direct Consolidation Loan process. A borrower may also include other student loans, such as Federal Perkins Loans and eligible health professions student loans.

A borrower with an outstanding FFEL but no outstanding Direct Loans must meet one of two conditions to receive a regular Direct Consolidation Loan: the borrower must be unable to obtain a Federal Consolidation Loan after checking with a lender that makes such loans; **or,** if the borrower is eligible for the Income Contingent Repayment Plan, he or she must be unable to obtain a Federal Consolidation Loan with acceptable income-sensitive repayment terms after checking with a lender that makes Federal Consolidation Loans.

For married borrowers who want to consolidate jointly, only **one** borrower must meet the conditions described in the preceding paragraph. Joint consolidators are held jointly and severally liable for their consolidation loan, however. **Both** borrowers must qualify for deferment, forbearance, and discharge, unless a discharge is due to school closure or false certification. In those two cases, only **one** borrower has to qualify; however, only the portion of the Direct Consolidation Loan affected by the school closure or false certification can be discharged.

Regular consolidation requires that borrowers (**both** borrowers, if married and consolidating jointly) have no federal consolidation loan applications pending with any other lenders (for example, an FFEL Program lender). Also, borrowers must agree to notify the Department of any address change.

A regular consolidation loan's repayment period begins the day the first disbursement is made; the first payment is due within 60 days of that date, unless the borrower is in deferment on the consolidation loan. There is no grace period.

Borrowers in repayment on any loans to be consolidated should continue making payments to their current loan holders until receiving written notice from the Department that it has consolidated

Married Borrowers Consolidation Example

Howard receives two FFELs while attending Cunningham Institute. Howard withdraws from Cunningham, enrolls in Tuscudaro Institute, and takes out another FFEL. He and his wife Marian decide to consolidate her Direct Loans and his FFELs into a joint Direct Consolidation Loan. Tuscudaro closes three months later. Howard is eligible to have his FFEL at Tuscudaro canceled, but he and Marian will continue to be responsible for his other two FFELs that are part of the Direct Consolidation Loan—those loans are unaffected by Tuscudaro's closure. Married borrowers must decide carefully about joint consolidation.

their loans. Once the loans are consolidated, any payments a borrower makes to the original holders will be sent to the Department to reduce the Direct Consolidation Loan balance.

In-School Consolidation

An in-school period is defined as the period before a loan enters the grace period while a borrower is enrolled **at least half time** at an eligible school. A loan is considered to be in an in-school period if the borrower entered but never completed the grace period because the borrower reenrolled **at least half time** at an eligible school before the grace period expired.

In-school consolidation requires borrowers to meet the requirements for regular consolidation, with some exceptions. Unlike regular consolidation, borrowers eligible for in-school consolidation may consolidate **only** Direct Loans or FFELs; the other types of federal education loans listed at the beginning of this chapter may be consolidated only after borrowers leave school.

Borrowers attending Direct Loan schools must consolidate at least one fully disbursed Direct Loan or FFEL that is **in an in-school period**. Borrowers attending non-Direct Loan schools must have a Direct Loan **and** must consolidate a Direct Loan or FFEL that is in an in-school period. (Note that borrowers can qualify simply by consolidating one Direct Loan that is in an in-school period.) Married borrowers who wish to consolidate jointly must **both** have Direct Loans or FFELs in in-school periods. If a married borrower attends a Direct Loan school but the spouse attends a non-Direct Loan school, the spouse must have a Direct Loan and must consolidate an FFEL or Direct Loan in an in-school period. (The spouse can qualify simply by consolidating one Direct Loan that is in an in-school period.)

Borrowers with no Direct Loans who want to consolidate FFELs must be attending Direct Loan schools. (At least one FFEL must be in an in-school period.) Such borrowers do not have to certify that they have been unable to obtain Federal Consolidation Loans—FFEL borrowers currently are not permitted under the Federal Consolidation Loan Program to consolidate a loan in an in-school period.

The borrower of an in-school Direct Consolidation Loan receives a six-month grace period on the loan when he or she reduces enrollment to **less than half time** at an eligible school. If the underlying loan(s) that is in an in-school period enters the grace period after the Direct Consolidation Loan application's submission but before the consolidation loan's first disbursement, borrowers do not have to make payments on the loan for the amount of time remaining in the grace period at the time of the first disbursement.

In-School Consolidation Example 1

Brian is in his third year at Coalhouse College (a Direct Loan school). He is a three-quarter-time student and wants a Direct Consolidation Loan for the two FFELs he received for the previous two years at a different school. The two FFELs have not yet entered repayment. Brian has no Direct Loans at Coalhouse. Brian is eligible to receive a Direct Consolidation Loan for his FFELs because he is attending a Direct Loan school and has a fully disbursed FFEL in an in-school period.

In-School Consolidation Example 2

Marin is in her first semester at Mazzie University (a Direct Loan school) and is enrolled full time. Marin has three FFELs she received before she transferred to Mazzie (these loans are still in an in-school period) and a Direct Loan she has received at Mazzie. She will receive the second disbursement of her Direct Loan in her second semester. Marin wants to consolidate all four loans for convenience. She can receive a Direct Consolidation Loan only for the three FFELs. The Direct Loan cannot be included because it has not been fully disbursed. She may want to apply for consolidation after her Direct Loan is fully disbursed so that all four loans can be consolidated.

In-School Consolidation Example 3

Jean has a Direct Loan he received two years ago at Javert College. He had been repaying that loan before enrolling at Valjean Institute, where he has been attending full time for two years. He has an in-school deferment for his Direct Loan. He received an FFEL for his first year of attendance at Valjean, which does not participate in Direct Loans. He would like to receive a Direct Consolidation Loan for both loans. Jean may receive a Direct Consolidation Loan for both loans. He has a Direct Loan (the fact that the loan is not in an in-school period does not matter), and he has an FFEL in an in-school period.

CONSOLIDATING DEFAULTED LOANS

Generally, defaulted student loans may be consolidated if borrowers agree either to repay the Direct Consolidation Loan under the Income Contingent Repayment Plan or make satisfactory repayment arrangements with the current loan holder. However, the borrower has only **one** option—to make satisfactory repayment arrangements with the current loan holder—in the following two situations:

- The borrower has a defaulted loan and at least one Direct Loan or FFEL in an in-school period and wants an in-school consolidation loan, or
- The borrower wants to consolidate a defaulted PLUS Loan.

For purposes of consolidating a defaulted Direct Loan, FFEL, or Perkins Loan, satisfactory repayment arrangements are defined as **three** consecutive, voluntary, on-time, full monthly payments that are reasonable and affordable given the borrower's total financial situation. Borrowers eligible to consolidate defaulted health professions loans must contact the loan holders to determine how a satisfactory repayment arrangement is defined.

Borrowers may not exclude a defaulted SFA loan from consolidation unless they have made repayment arrangements satisfactory to **regain SFA eligibility.** For Direct Loans and FFELs, these arrangements are the same as those described above, except borrowers must make **six** payments instead of three. For Perkins Loans, borrowers must repay the loan in full or sign a new repayment agreement and make one payment each month for six consecutive months. Note that regaining SFA eligibility does not apply if only health professions loans are in default.

For defaulted Direct Loans and FFELs, collection costs up to a maximum of 18.5 percent of the outstanding principal and interest may be added to the outstanding principal loan balance. For defaulted Perkins Loans and health professions loans, collection costs equal to the amount the borrower owes may be added to the outstanding principal loan balance.

In general, a borrower may not consolidate **any** loan on which a judgment has been obtained. For example, a borrower with a judgment on a defaulted Direct Loan, FFEL, or Perkins Loan who makes satisfactory repayment arrangements on the judgment for purposes of regaining SFA eligibility may still not include the judgment in a Direct Consolidation Loan. A borrower with a judgment on a health professions loan who is not in default on any SFA loan may consolidate all loans except the judgment.

Note that borrowers who have judgments on Direct Loans or FFELs but who rehabilitate those loans may include them in a Direct Consolidation Loan.

In-School Consolidation Example 4

Webber graduated from Forrest University with a degree in Biology. He received two FFELs during his attendance. Three months after graduation, he enrolls at Marquis Technical Institute as a three-quarter-time student to pursue a degree in Zoology. Marquis is a Direct Loan school, but he has not taken out a Direct Loan. He would nevertheless like to receive a Direct Consolidation Loan for his FFELs because the repayment terms would be more favorable. Webber may receive a Direct Consolidation Loan for his FFELs. The loans are considered to be in an in-school period because Webber has reenrolled in school at least half time after only three months of his grace period have expired.

Grace Period Consolidation Example

On September 1 of his senior year at Parker College, a Direct Loan school, Peter applies for an in-school Direct Consolidation Loan for two FFELs he has received. Two weeks after he applies, he drops below half-time attendance. Peter has not received his first Direct Consolidation Loan disbursement. He receives the first disbursement in early December. By that time, he has used 2 1/2 months of his grace period. Peter has 3 1/2 months left in his grace period before he must begin repayment on his Direct Consolidation Loan.

PLUS LOAN CONSOLIDATION

A parent who wants to consolidate Direct PLUS or Federal PLUS loans must have at least one Direct PLUS Loan or have at least one Federal PLUS Loan and have been unable to obtain a Federal Consolidation Loan. The borrower must pass a credit check or must either document extenuating circumstances or obtain an endorser who can pass a credit check. If married borrowers are consolidating PLUS loans jointly, only **one** borrower needs to pass a credit check.

Note that a parent borrower is not eligible for a Direct Consolidation Loan based on being unable to obtain a Federal (FFEL) Consolidation Loan with acceptable income-sensitive repayment terms; Direct PLUS Loan borrowers are not eligible for the Income Contingent Repayment Plan.

SUBSEQUENT CONSOLIDATION

A borrower may add preexisting eligible loans to a Direct Consolidation Loan within 180 days after the date the Direct Consolidation Loan is made. A preexisting eligible loan is one fully disbursed before the Direct Consolidation Loan's first disbursement is made. A borrower who listed the preexisting loan as an outstanding debt on the consolidation application may telephone the Loan Origination Center to request that the loan be added. A borrower who did not list the loan must submit a brief written request that includes the loan information the consolidation application requires.

After the Department verifies the additional loan, the borrower must sign a promissory note for the additional amount before the Department will pay off the holder. The loan disclosure issued when the subsequent consolidation is completed will include the balance of the newly consolidated loan.

If the original Direct Consolidation Loan required an endorser on the PLUS portion of the loan and the borrower is adding a PLUS Loan, the same endorser must be used for the added PLUS Loan. If an endorser was not originally required but is required for the added PLUS Loan, the endorser must agree to repay the **entire** Direct PLUS Consolidation Loan.

A borrower who wants to consolidate additional eligible loans after 180 days must complete a new Direct Consolidation Loan application.

REPAYMENT

As mentioned earlier, a regular Direct Consolidation Loan's repayment period begins the day the loan is first disbursed. If a Direct Consolidation Loan includes at least one Direct Loan or FFEL that is in an in-school period at the time the Department receives the consolidation application, the repayment period begins the day after the grace period ends.

The first payment on a Direct Consolidation Loan is due within 60 days of the loan's first disbursement, unless a borrower is eligible for a deferment or the loan includes at least one Direct Loan or FFEL in an in-school period and therefore qualifies for a grace period.

Direct Loan repayment plans and their requirements also apply to Direct Consolidation Loans. The length of a Direct Consolidation Loan repayment period under each plan is the same as for non-consolidated Direct Loans.

Borrowers may not choose the Income Contingent Repayment Plan for Direct PLUS Consolidation Loans. Borrowers with these loans may have two repayment plans if they want to repay their Direct Subsidized Consolidation Loans and/or Direct Unsubsidized Consolidation Loans under the Income Contingent Repayment Plan.

For Direct Consolidation Loans, outstanding balances consist of all the borrower's Direct Consolidation Loans, Direct Loans, and other education loans not made by an individual and not in default (unless satisfactory repayment arrangements have been made). The total outstanding balance for the other education loans used to determine an Extended or Graduated repayment period may not exceed the amount of the Direct Consolidation Loan.

The Department forwards a repayment schedule to the Direct Consolidation Loan borrower before the first installment payment is due. The schedule presents the borrower's monthly repayment under the repayment plan selected. If a borrower then adds an eligible loan to the consolidation, the Department adjusts the monthly repayment amount (and, if necessary, the repayment period for loans in Graduated or Extended repayment plans).

As is true for Direct Loans, a borrower who decides the repayment plan selected for the Direct Consolidation Loan no longer meets his or her needs can switch plans by calling or writing the Direct Loan Servicing Center—as long as the new plan's maximum repayment period is longer than the period the borrower's loan has already been in repayment.

A borrower who had a defaulted loan and became eligible for a Direct Consolidation Loan by agreeing to repay it under the Income Contingent Repayment (ICR) Plan may switch to a plan other than ICR if he or she

- was required to make, and did make, a payment under ICR in each of the prior three months; or
- was not required to make payments but made three reasonable and affordable payments in each of the prior three months.

In either case, a borrower must call or write the Direct Loan Servicing Center to receive permission to make such a switch.

LOAN HOLDER RESPONSIBILITIES

When a borrower wishes to consolidate an FFEL or other non-Direct Loan, the loan holder must certify the loan amount and forward that information to the Department within 10 business days of receiving the Department's request for loan information. A loan holder that is unable to provide the certification must explain the reason in writing to the Department.

The holder must promptly use the Direct Consolidation Loan proceeds received from the Department to discharge fully the borrower's obligation on the loan that has become consolidated.

- If the amount the Department pays exceeds the amount owed, the loan holder must refund the excess to the Department to be credited against the outstanding balance of the Direct Consolidation Loan.

- If the amount the Department pays is insufficient to pay off the loan, the holder must notify the Department in writing of the amount due so that the remainder can be paid.

The holder also is responsible for notifying the borrower that the original loan has been paid in full.

If a holder of a loan that was consolidated receives a refund from a school on that loan, the holder must transmit the refund to the Department within 30 days of receipt. The holder must include an explanation of the refund source.

Federal (FFEL) Consolidation Loans

A Federal Consolidation Loan enables a borrower with several loans to obtain one loan with one interest rate and repayment schedule. Stafford Loans (both subsidized and unsubsidized), Federal Insured Student Loans (FISLs), Federal Perkins Loans, National Direct Student Loans (NDSLs), PLUS Loans to students, Auxiliary Loans to Assist Students (ALAS), parent PLUS Loans, SLS loans, Health Professions Student Loans, Health Education Assistance Loans, and Nursing Student Loan Program loans may be consolidated only by lenders that have an agreement with the Department or a guaranty agency for that purpose. (PLUS Loans to students and ALAS are former names of the SLS Program.) These also include certain existing Consolidated loans and Direct Loans, if the application for the Consolidation Loan was received on or after November 13, 1997.

Nonfederal loans made by state or private lenders are not eligible for consolidation.

A defaulted loan may be included in a consolidation loan if the borrower has made satisfactory repayment arrangements with the holder to repay the loan. Three voluntary, on-time, consecutive monthly payments under a "satisfactory repayment arrangement" are required to consolidate a defaulted loan. Satisfactory repayment arrangements are discussed in Chapter 7 of this reference. A borrower can also consolidate a defaulted loan without having to make three required payments, if he or she agrees to repay the Consolidation Loan under an income-sensitive repayment plan.

Loan consolidation allows a lender to pay off the existing loans and make one Federal Consolidation Loan to replace them. Consolidation may include, in addition to unpaid principal and interest on the underlying loans being consolidated, late charges and collection costs applied to those loans. A guaranty agency (or the Department, if it is holding the loan) may assess the borrower collection charges or late fees up to 18.5 percent of the principal and interest that is outstanding at the time of loan payoff certification on the defaulted Stafford Loan that is to be included in a Federal Consolidation Loan.

A lender must offer standard, graduated, and income-sensitive repayment options on Federal Consolidation Loans.

APPLYING FOR A FEDERAL CONSOLIDATION LOAN

Generally, a borrower submits a Consolidation Loan application to a lender holding at least one of the loans to be consolidated. If none of those lenders agrees to consolidation, the borrower may apply to any other lender participating in the Consolidation Loan Program. A borrower whose loans are all held by one lender must consolidate with that lender unless the borrower certifies that he or she has sought and been unable to secure a Federal Consolidation Loan with acceptable income-sensitive repayment terms.

Amendments of 1998

The Higher Education Amendments of 1998 specify that lenders are not required to provide for consolidation of loans made under Titles VII and VIII of the Public Health Service Act. Please continue to check IFAP for more details about the Higher Education Amendments of 1998 Federal Loan Consolidation provisions.

The borrower must give the lender all relevant information concerning his or her existing loans. A borrower may add to an existing Consolidation Loan eligible loans received before the date of consolidation, if the loans are added within 180 days after the date the Consolidation Loan is made.

BORROWER ELIGIBILITY FOR A FEDERAL CONSOLIDATION LOAN

To be eligible for a Federal Consolidation Loan, a borrower

- must be in the grace period or in repayment status on all loans being consolidated;
- if in default,
    - Δ must have made satisfactory arrangements to repay the defaulted loan and must have made at least three voluntary, on-time, consecutive monthly payments or
    - Δ must agree to repay the Consolidation Loan under the income-sensitive repayment plan (with no payments required prior to consolidation);

Amendments of 1998

However, the Higher Education Amendments of 1998 eliminated defaulted borrowers against whom a court has issued judgment or against whom a wage garnishment order has been issued from Federal Consolidation Loan eligibility.

- must not have another Consolidation Loan application pending;
- must agree to notify the loan holder of any address changes; and
- must certify that the lender holds at least one of the borrower's outstanding loans that are being consolidated or that the borrower has unsuccessfully sought a Consolidation Loan from the holders of the outstanding loans and was unable to secure one.

There is no longer a minimum debt level a borrower must have to qualify for consolidation.

Amendments of 1998

The Higher Education Amendments of 1998 clarify treatment of loans made before and after loan consolidation (although at the time this reference went to print, specific details about these provisions were still under negotiation):

- An individual may receive a subsequent consolidation loan to consolidate eligible loans received after the borrower's first consolidation is made;
- An individual may add loans made prior to the date of the Consolidation Loan within 180 days following making the Consolidation Loan;
- An individual may add loans received following the making of the Consolidation Loan within 180 days after making the Consolidation Loan;

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- An individual may add loans made prior to the date of a first Consolidation Loan to a subsequent Consolidation Loan.

A married couple may consolidate individual loans if both spouses agree to be held jointly and separately liable for repayment of the Consolidation Loan regardless of the amount of their individual debts and regardless of any future change in marital status. If one spouse dies, becomes totally and permanently disabled, has collection of his or her loan obligation stayed by a bankruptcy filing, or has that obligation discharged in bankruptcy, the other borrower remains obligated to repay the loan.

Both spouses must meet the eligibility requirements to qualify for a Consolidation Loan. Only one spouse is required to certify that the lender holds at least one of his or her outstanding loans that are being consolidated or that he or she has unsuccessfully sought a Consolidation Loan from the holders of the outstanding loans and was unable to secure one.

Joint consolidators are held jointly and separately liable for the Consolidation Loan. To receive a deferment, forbearance, or discharge, both borrowers must meet the qualifying conditions, unless a discharge is due to school closure or false certification. In that case, only one borrower must qualify; however, only the portion of the Consolidation Loan affected by the school closure or false certification can be discharged, unless the borrower's spouse qualifies for some type of discharge.

If a borrower is unable to obtain a Consolidation Loan from a lender eligible to make such loans, the borrower may apply through the U.S. Department of Education for a Federal **Direct** Consolidation Loan under the Direct Loan Program. The borrower must certify that he or she has been unable to obtain from an eligible lender a Consolidation Loan or a Consolidation Loan with income-sensitive repayment terms acceptable to the borrower. See above for more information on Federal Direct Consolidation Loans. The eligibility criteria for Federal Direct Consolidation Loans differ from the criteria for Federal Consolidation Loans.

INTEREST RATES

The interest rate for a Federal Consolidation Loan made from July 1, 1994 to November 13, 1997 is the greater of the weighted average of the interest rates of the loans consolidated (rounded to the nearest whole percent) or 9 percent. When determining the weighted average of interest rates, the interest rate used for each loan is that which is in effect for it at the time the loan is paid in full through consolidation.

The interest rate for a Federal Consolidation Loan made from November 14, 1997 to September 30, 1998 is the bond equivalent rate of 91-day Treasury bills sold at the final auction before June 1, plus 3.10 percent. The interest rate may not exceed 8.25 percent.

Amendments of 1998

The interest rate for this category of loans from July 1, 1999 through June 30, 2000 is 7.72 percent.

If a Federal Consolidation Loan application was received on or after October 1, 1998, the interest rate is the weighted average of the interest rates of the loans being consolidated, rounded to the nearest higher one-eighth of 1 percent, not to exceed 8.25 percent.

There are no insurance premiums or other fees for loan consolidation.

A borrower is entitled to an interest subsidy during deferment **only** when the Consolidation Loan is made up exclusively of subsidized Stafford Loans.

A borrower interested in consolidation should understand that consolidating Perkins Loans (or NDSLs) will result in

- a higher interest rate than he or she is paying on those loans;
- fewer deferment provisions than he or she has available under the Perkins Loan (or NDSL) Program; and
- the loss of Perkins Loan (or NDSL) cancellation provisions on the loans being consolidated.

The student should also understand that consolidating Stafford Loans and SLS loans may result in higher interest rates than he or she was paying on those loans. However, because Consolidation Loans may have repayment periods as long as 30 years, the borrower's monthly repayment amount may be reduced.

If a lender received a Consolidation Loan application before January 1, 1993, the borrower is responsible for the interest on the loan during periods of deferment. If a lender received a Consolidation Loan application between January 1, 1993 and August 10, 1993, interest that accrues during periods of deferment on the portion of the loan that does not represent HEAL Loans is paid by the federal government. For loan applications received on or after August 10, 1993, the borrower is entitled to an interest subsidy during deferment **only** when the Consolidation Loan is made up exclusively of subsidized Stafford Loans.

REPAYMENT

Generally, the first payment on a Federal Consolidation Loan is due within 60 days after consolidation. (The repayment period begins on the day the Consolidation Loan is disbursed.) There are a number of repayment options, including the graduated repayment and income-sensitive repayment options mentioned previously. The repayment period varies from 10 to 30 years, depending on the amount consolidated and on other student loans the borrower may have. If the amount to be consolidated is less than $7,500, for example, the repayment period must not exceed 10 years.

All deferment and forbearance options available to FFEL Stafford Loan borrowers are available to Federal Consolidation Loan borrowers. If a married couple is jointly liable for repayment of a Federal Consolidation Loan, the lender may grant forbearance only if both persons meet the conditions for forbearance. Please see Chapter 5 for more about Federal Consolidation Loan deferment and forbearance.

Default Reduction Measures

CHAPTER 9

The U.S. Department of Education (the Department) issued comprehensive default reduction regulations on June 5, 1989, as part of a major effort to reduce the default rate of Federal Stafford Loan and Federal Supplemental Loans for Students loan (SLS) borrowers. The regulations are found in the General Provisions regulations (Part 668), the William D. Ford Federal Direct Loan (Direct Loan) regulations (Part 685), and the Federal Family Education Loan (FFEL) Program regulations (Part 682). Schools with high cohort default rates are a major focus of the default reduction regulations and of subsequent legislation focusing on the problem of defaulted loans. These actions by law and regulation require schools to provide students with additional loan counseling and to take specific steps to reduce loan defaults.

COHORT DEFAULT RATES

A cohort default rate is the percentage of a school's student borrowers who enter repayment on certain Direct Loan and/or FFEL Program loans during a particular fiscal year (FY) and default or meet other specified conditions before the end of the next fiscal year. The cohort default rate may be a Direct Loan Program cohort rate, an FFEL Program cohort default rate, or a Dual-Program cohort rate, depending on the type or types of student loans that comprise the rate.

Cohort Default Rate Definition Cites
34 CFR 668.17(d), (e), and (f)

A Direct Loan Program cohort rate is the cohort rate for schools whose students have **only** Direct Loan Program loans entering repayment during a particular fiscal year. It is the percentage of a school's borrowers who enter repayment on certain Direct Loan Program loans during a particular fiscal year and default or meet **other specified conditions,** listed below, within the fiscal year in which the loans entered repayment or within the next fiscal year.

An FFEL Program cohort default rate is the cohort default rate for schools whose students have **only** FFEL Program loans entering repayment during a particular fiscal year. It is the percentage of a school's borrowers who enter repayment on certain FFEL Program loans during a particular fiscal year and default within the fiscal year in which the loans entered repayment or within the next fiscal year.

A Dual-Program cohort rate is the cohort rate for schools whose students have **both** Direct Loan and FFEL Program loans entering repayment during a particular fiscal year. It is the percentage of a school's borrowers who enter repayment on certain Direct Loan Program and FFEL Program loans during a particular fiscal year and default or meet **other specified conditions,** listed below, within the fiscal year in which the loans entered repayment or within the next fiscal year.

Additional Conditions (Direct Loan and Dual-Program Cohort Rates Only)

For non-degree-granting proprietary schools only, Direct Loans are treated as defaulted loans in the schools' rates if, for 270 days during the cohort period in question, borrowers are in repayment under the income contingent repayment (ICR) plan with scheduled payments that are less than $15 per month and less than the interest accruing on the loan.

A school does not select whether it has a Direct Loan Program cohort rate, an FFEL Program cohort default rate, or a Dual-Program cohort rate. The rate is determined on the basis of the types of student loans a school makes that enter repayment in a given cohort period.

The Department's regulations use the term "weighted average cohort rate" for rates for schools with student borrowers who have both FFEL Program and Direct Loan Program loans entering repayment during a cohort period. This reference uses the term "Dual-Program cohort rate" to describe the same rate and calculation. In addition, this reference uses the term "cohort default rate" to refer to a school's FFEL Program cohort default rate, Direct Loan Program cohort rate, or Dual-Program cohort rate, unless otherwise specified.

DEFAULT RATE CALCULATIONS

Loans Included In Cohort Default Rate Calculations

The cohort default rate does not include all types of Direct Loan and/or FFEL Program loans.

The **FFEL Program loans included** in a cohort default rate calculation are:

- Subsidized Federal Stafford Loans (FFEL Stafford Loans);
- Unsubsidized Federal Stafford Loans (FFEL Stafford Loans); and
- Federal Supplemental Loans for Students (Federal SLS loans).

The **Direct Loan Program loans included** in a cohort default rate calculation are:

- Federal Direct Subsidized Stafford Loans (Direct Loans); and
- Federal Direct Unsubsidized Stafford Loans (Direct Unsubsidized Loans).

The following **loans are NOT included** in a cohort default rate calculation:

- PLUS Loans;
- Federal Direct PLUS Loans;
- Federal Insured Student Loans; and
- Federal Perkins Loans.

Federal Consolidation Loans and Federal Direct Consolidation Loans are not counted directly in the cohort default rate calculation. However, the status of a consolidation loan may affect how the loan(s) that was paid off by the consolidation loan is included in the cohort default rate calculation.

How the Department Calculates a School's Cohort Default Rate

The formula the Department uses for calculating a school's cohort default rate depends on the number of student borrowers from that school entering repayment in a particular fiscal year (FY).

Non-Average Calculation

For a school with **30 or more borrowers** entering repayment during FY 97, the FY 97 cohort default rate is calculated as follows:

$$\boxed{100} \times \frac{\boxed{\text{the number of \textbf{borrowers} who entered repayment in FY 97 and who defaulted or met \textbf{other specified conditions} in FY 97 or FY 98 (\textbf{numerator})}}}{\boxed{\text{the number of \textbf{borrowers} who entered repayment in FY 97 (\textbf{denominator})}}}$$

For non-degree granting proprietary schools only, borrowers who have received Direct Loan Program loans are treated as having defaulted loans included in the schools' rates if, for 270 days during the cohort period in question, the borrowers are in repayment under the income contingent repayment (ICR) plan with scheduled payments that are less than 15 dollars per month and less than the interest accruing on the loan.

Average Calculation

For a school with **29 or fewer borrowers** entering repayment during FY 97 which had cohort default rates calculated for the two

Non-Average Example

School A, a degree-granting school, certified 117 loans for ***90 borrowers*** *that entered repayment in FY 97 (denominator). Of those borrowers,* ***8 borrowers*** *defaulted on a total of 16 loans in FY 97 or FY 98 (numerator). School A's cohort default rate is calculated by dividing 8 by 90 and multiplying the result by 100 to produce a cohort default rate of 8.9 percent.*

100 X 8/90 = 8.9 percent

Average Example

School B, a degree-granting school, certified loans for the following students: 50 borrowers that entered repayment in FY 95, 44 borrowers that entered repayment in FY 96, and 29 borrowers that entered repayment in FY 97. Of those 123 borrowers, 2 of the borrowers that entered repayment in FY 95 defaulted in FY 95 or FY 96; 6 of the borrowers that entered repayment in FY 96 defaulted in FY 96 or FY 97; and 4 of the borrowers that entered repayment in FY 97 defaulted in FY 97 or FY 98. School B's average cohort default rate is calculated by dividing 12 by 123 and multiplying the result by 100 to produce an average cohort default rate of 9.8 percent.

100 X 12/123 = 9.8 percent

Cohort Default Rate Formulas Cites

34 CFR 668.17(d), (e), and (f)

previous years, the Department calculates an **average cohort default rate**. The FY 97 average cohort default rate is calculated as follows:

$$100 \times \frac{\text{the number of } \textbf{borrowers} \text{ who entered repayment in FY 95, FY 96, and FY 97 and who defaulted or met } \textbf{other specified conditions} \text{ before the end of the fiscal year immediately following the fiscal year in which the loan entered repayment } (\textbf{numerator})}{\text{the number of } \textbf{borrowers} \text{ who entered repayment in FY 95, FY 96, and FY 97 } (\textbf{denominator})}$$

For non-degree-granting proprietary schools only, borrowers who have received Direct Loan Program loans are treated as having defaulted loans included in the schools' rates if, for 270 days during the cohort period in question, the borrowers are in repayment under the income contingent repayment (ICR) plan with scheduled payments that are less than $15 per month and less than the interest accruing on the loan.

Unofficial Example

School C, a degree-granting school that began participating in the FFEL Program on October 1, 1995, certified loans for the following students: 10 borrowers that entered repayment in FY 96, and 21 borrowers that entered repayment in FY 97. Of those borrowers, 0 of the borrowers that entered repayment in FY 96 defaulted in FY 96 or FY 97; and 2 of the borrowers that entered repayment in FY 97 defaulted in FY 97 or FY 98. Because School C has 29 or fewer borrowers who entered repayment in FY 97, a non-average cohort default rate cannot be calculated for the school. However, because the school was not participating in the FFEL Program in FY 95 and did not have a cohort default rate calculated for FY 95, School C's cohort default rate is calculated based on one year of data by dividing 2 by 21 and multiplying the result by 100 to produce an unofficial cohort default rate of 9.5 percent.

100 X 2/21 = 9.5 percent

Unofficial Calculation

For a school with **29 or fewer borrowers** entering repayment during FY 97 but which did not have a cohort default rate calculated for FY 95 and/or FY 96, the Department calculates an **unofficial cohort default rate**. The FY 97 unofficial cohort default rate is calculated as follows:

$$100 \times \frac{\text{the number of } \textbf{borrowers} \text{ who entered repayment in FY 97 and who defaulted or met } \textbf{other specified conditions} \text{ in FY 97 or FY 98 } (\textbf{numerator})}{\text{the number of } \textbf{borrowers} \text{ who entered repayment in FY 97 } (\textbf{denominator})}$$

For non-degree-granting proprietary schools only, borrowers who have received Direct Loan Program loans are treated as having defaulted loans included in the schools' rates if, for 270 days during the cohort period in question, the borrowers are in repayment under the income contingent repayment (ICR) plan with scheduled payments that are less than $15 per month and less than the interest accruing on the loan.

Because an unofficial cohort default rate does not meet the statutory definition of a cohort default rate, it cannot be used to determine sanctions or benefits.

CHANGES OCCURRING AFTER AN OFFICIAL COHORT DEFAULT RATE CALCULATION

A school's draft cohort default rate data and official cohort default rate data may not necessarily be the same. Because NSLDS is regularly updated, a school's draft data might differ from its official data even if a school did not challenge the cohort default rate data after the release of the draft cohort default rates.

Sanctions Associated with Cohort Default Rates Cites
Sec. 401(j); Sec. 435(a)(2); 34 CFR 668.17(a) (3) and (b)

If incorrect new data appear in a school's official cohort default rate calculation, the school may be eligible to appeal its cohort default rate based on allegations of erroneous data.

DRAFT COHORT DEFAULT RATES

The Department releases draft cohort default rates to allow schools an opportunity to review and/or correct the data that will be used to calculate their official cohort default rates. A school must review its draft cohort default rate data and submit a draft data challenge if necessary. **A school that does not submit a draft data challenge will be unable to correct certain data errors once its official cohort default rates are released.**

It is important to note that there are no consequences associated with **draft** cohort default rates. However, there are consequences associated with **official** cohort default rates. Because official cohort default rates are based on draft cohort default rates and a school may not be able to appeal its official rate if it fails to challenge its draft rate, it is critical that a school review its draft cohort default rate data to ensure accuracy.

CONSEQUENCES ASSOCIATED WITH HIGH OFFICIAL COHORT DEFAULT RATES

Sanctions associated with high official cohort default rates are

- **initial loss of eligibility** to participate in the Direct Loan, FFEL, and Federal Pell Grant Programs. Initial loss of eligibility occurs when a school's three most recent official cohort default rates (for 1999-2000, the three most recent rates are for FY 95, FY 96, and FY 97) are equal to or greater than 25.0 percent.

- **extended loss of eligibility** to participate in the Direct Loan, FFEL, and Federal Pell Grant Programs. Extended loss of eligibility occurs when a school loses Direct Loan, FFEL, and/or Federal Pell Grant Program eligibility because of its three most recent official cohort default rates (for 1999-2000, the three most recent rates are for FY 94, FY 95, and FY 96) **and** the school's current year official cohort default rate (in this case FY 97) is equal to or greater than 25.0 percent.

  A school will not be subject to loss of Federal Pell Grant Program eligibility if a school officially withdrew from the Direct Loan and/or FFEL Programs on or before October 7, 1998 **or** lost its eligibility to participate in the Direct Loan or FFEL Programs on or before October 7, 1998 **or** did not certify any Direct Loan or FFEL Program loans on or after July 7, 1998.

Amendments of 1998

- **possible action to limit, suspend, and/or terminate (LS&T)** a school's eligibility to participate in any or all SFA programs.

Such action occurs when a school's official cohort default rate is 40.1 percent or greater.

If a school is subject to an LS&T action based on its final cohort default rate, the school will be notified in writing of the intended action. If a school believes it has a basis to appeal its cohort default rate, it must follow the usual procedures set forth in the "Information for Schools on Appeals" section in the *FY 97 Official Cohort Default Rate Guide.* A school cannot wait to appeal its cohort default rate until it has been notified of an LS&T action.

A school subject to **initial or extended loss** of its Direct Loan, FFEL, and/or Federal Pell Grant Program eligibility loses eligibility to participate in the(se) program(s) for the remainder of the fiscal year in which the school became subject to the loss and for the two subsequent fiscal years. For example, if a school is notified that it is subject to initial or extended loss of its Direct Loan, FFEL, and/or Federal Pell Grant Program eligibility in FY 99, the school would lose its eligibility for the remainder of FY 99 and for the next two fiscal years (i.e., FY 2000 and FY 2001). Therefore, the school would remain ineligible until September 30, 2001.

If the Department fails to release official cohort default rates by the end of the fiscal year (i.e. September 30), the Department will determine a school's period of loss as if the cohort default rates were released on September 30.

A school subject to **LS&T** may have its eligibility to participate in any or all SFA programs limited, suspended, and/or terminated.

EXEMPTIONS FROM SANCTIONS

In addition to being exempt from sanctions because of a successful cohort default rate appeal, a school may be exempt from certain sanctions despite its cohort default rates if

- The school has an **unofficial cohort default rate**. An unofficial cohort default rate will not be used to end a school's eligibility to participate in any student financial assistance (SFA) programs.

- The school has an **average cohort default rate with less than five borrowers entering repayment in any of the three most recent cohort periods.** Such a school will **not** be subject to an LS&T action based on the average cohort default rate.

- The school has submitted, prior to the Department's release of its official cohort default rates, a successful **participation rate index challenge** based on its most recent draft cohort default rate (in this case FY 97) or on either of its two previous official cohort default rates (in this case FY 95 or FY 96). Such a school will **not** be subject to initial and/or extended loss of its eligibility to participate in the Direct Loan, FFEL, or Federal Pell Grant Programs.

Loss of Program Eligibility
Sec. 435(a)(2)

Δ If a school's successful participation rate index challenge is based on its FY 95 or FY 96 **official** cohort default rate, the school's FY 95 or FY 96 official cohort default rate will not be used in the future to determine if the school is subject to the loss of loan program eligibility.

Δ If a school's successful participation rate index challenge is based on its FY 97 **draft** cohort default rate, the school's FY 97 official cohort default rate may be used to determine whether the school is subject to the loss of loan program eligibility after the release of the FY 98 official cohort default rates, if the school's FY 98 official cohort default rate is equal to or greater than 25.0 percent.

BENEFITS FOR SCHOOLS WITH LOW COHORT DEFAULT RATES

The Higher Education Amendments of 1998 provided two types of benefits for schools with cohort default rates below certain thresholds:

Amendments of 1998

- If a school's three most recent official cohort default rates (for 1999-2000, the three most recent cohort rates are for FY 95, FY 96, and FY 97) are 9.9 percent or lower, the school **may**
  - Δ make single disbursements to a student if that student's period of enrollment is equal to or less than one semester, one trimester, one quarter, or four months; and
  - Δ choose not to delay disbursements for first-time borrowers.
- If a school's most recent official cohort default rate is 4.9 percent or less and the school is certifying or originating loans to cover the cost of attendance in study-abroad programs, the school may
  - Δ make a single disbursement to the student studying abroad; and
  - Δ decide not to delay the disbursement for first-time borrowers studying abroad.

CHANGE IN STATUS OF A SCHOOL

Default reduction measures apply to **all** divisions and locations of a school. If a school changes its status (by branching, consolidating, or changing ownership, for example) the Department will track and impose appropriate consequences for cohort default rates for fiscal years both before and after the change in status.

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Appeal Procedures Cite
34 CFR 668.17(c)

- If a location becomes a freestanding school:

  A school that is a location of a proprietary vocational or vocational postsecondary school and that is seeking institutional eligibility in its own right is required to operate independently from its former "parent" school for at least two years before it is eligible to participate in student financial assistance (SFA) programs.

- If a school changes ownership:

  If the new owner applies for eligibility to participate in the SFA programs as a continuation of the old school, the new owner remains responsible for the school's cohort default rates and for implementing any requirements associated with those rates. New owners should be aware that cohort default rates calculated for fiscal years prior to the change of ownership may affect the school's ability to participate in SFA programs. In fact, a school undergoing a change of ownership may be refused certification for participation in any SFA program or may be granted provisional certification on the basis of current cohort default rates.

The Department is required by law to use procedures that prevent a school from evading the application of a cohort default rate determination through such measures as branching, consolidation, change of ownership or control, or other similar device.

Financial aid administrators with any questions regarding their schools' official cohort default rates should contact the Default Management Division at the address and phone number listed at the end of this chapter. Questions regarding a school's change in ownership should be directed to the Initial Participation Branch of the Department at 202/260-3270.

APPEAL PROCEDURES

Types of Appeal

There are four types of appeal:

- a request for adjustment;
- an erroneous data appeal;
- an improper loan servicing and collection appeal; and
- an exceptional mitigating circumstances appeal, which may be based on:
  - Δ a participation rate index;
  - Δ economically disadvantaged and placement rates;

Appeal Eligibility for Schools Subject to Sanctions

Official Cohort Default Rate	*Sanctions*	*School May Submit*
Equal to or greater than 25.0 percent for FY 95, FY 96, and FY 97	School is subject to initial loss of eligibility to participate in Direct, FFEL, and Federal Pell Grant Programs	• FY 97 Request for Adjustment • FY 95, FY1996, and FY 97 Erroneous Data Appeal • FY 95, FY 96, and FY 97 Improper Loan Servicing and Collection Appeal • FY 95, FY 96, and FY 97 Exceptional Mitigating Circumstances Appeal based on school's Participation Rate Index • FY 97 Exceptional Mitigating Circumstances Appeal based on the school's Economically Disadvantaged and Placement or Completion Rates
Equal to or greater than 25.0 percent for FY 97 CDR and loss of eligibility because of FY 94, FY 95, and FY 96 rates	School is subject to extended loss of eligibility to participate in Direct, FFEL, and Federal Pell Grant Programs	• FY 97 Request for Adjustment • FY 97 Erroneous Data Appeal • FY 97 Improper Loan Servicing and Collection Appeal • FY 95, FY 96, and FY 97 Exceptional Mitigating Circumstances Appeal based on school's Participation Rate Index • FY 97 Exceptional Mitigating Circumstances Appeal based on the school's Economically Disadvantaged and Placement or Completion Rates
Equal to or greater than 40.1 percent for FY 97 CDR and the school's FY 95 and FY 96 rates are not 25.0 percent or greater	School is subject to Limitation, Suspension, and/or Termination (LS&T) ONLY	• FY 97 Request for Adjustment • FY 97 Erroneous Data Appeal • FY 97 Improper Loan Servicing and Collection Appeal • FY 97 Exceptional Mitigating Circumstances Appeal based on school's Participation Rate Index

Δ economically disadvantaged and completion rates;

Δ average cohort default rates; and/or

Δ a total of 29 or fewer borrowers in a school's three most recent cohort default rates.

Eligibility to File an Appeal

If a school submits an appeal, the FAA should first consult the sections that cover appeals in the *FY 97 Official Cohort Default Rate Guide* and applicable regulations.

Appeal Submission Deadlines

Timing is critical for all cohort default rate appeals. If a school misses the established deadlines, the Department will **not** review a school's appeal. The Department tracks its receipt of all notification letters, loan record detail reports, and responses to requests for

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Appeal Eligibility for Schools Not Subject to Sanctions

Official Cohort Default Rate	*School May Submit*
19.9 percent or less for FY 97	• FY 97 Request for Adjustment
20.0 - 40.0 percent for FY 97	• FY 97 Request for Adjustment • FY 97 Improper Loan Servicing and Collection Appeal

information and uses this information to determine the time frames for schools to appeal.

Depending on which documents a school receives, regulatory deadlines may differ. Some appeal deadlines are based on calendar days and some are based on working days. **Calendar days** include federal business days, federal holidays and weekends. **Working days** only include federal business days but do **not** include federal holidays or weekends.

The required information must be **sent** to the Department within the stated time period. If the submission due date falls on a weekend or a federal holiday, a school may send the information to the Department no later than the next federal business day. Please note that the Department accepts deliveries from commercial couriers and/or hand deliveries Monday through Friday, 7:30 a.m. to 5:00 p.m. eastern time.

Appeal Documentation Requirements

The Department recommends that a school send all appeal correspondence using "Return Receipt Requested", commercial overnight mail, or a courier. Each of these methods can be used by a school to authenticate the appeal's timeliness. A school should maintain documentation verifying receipt of all appeal-related material.

The Department will **not** accept any appeal correspondence by facsimile (fax) or e-mail.

Whenever a school sends correspondence regarding its cohort default rate appeal, it must simultaneously send a copy of the correspondence to the Department's Default Management Division. The Department recommends that a school retain copies and delivery receipts for all appeal documents provided to the Department and other entities.

Final Appeal Decisions

Appealing its official cohort default rate (and/or sanction associated with the rate) to the Department is the only administrative cohort default rate review available to a school. The Department's decision is final; a school is not entitled to further administrative review.

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GENERAL REQUIREMENTS TO REDUCE DEFAULT

The following requirements apply to all schools:

- **All** schools (except foreign schools) wishing to participate in SFA loan programs must develop a default-management plan for the Department's approval as part of the initial application for participation; all schools must implement the plan for two years after they become eligible. Recertification will be required of all schools every six years; a default-management plan is a requirement of the Program Participation Agreement for schools wishing to participate in SFA loan programs.

- A school that admits students who do not have high school diplomas or the equivalent must make available to those students a General Education Development (GED) program. The school does not have to develop its own GED program or pay students' tuition for such a program, but the school must be sure that a GED program is available nearby and must inform students of GED program availability. This requirement applies to all SFA programs except the Leveraging Educational Assistance Program and Byrd Scholarship programs. See the *SFA Handbook: Institutional Eligibility and Participation* for more details on GED requirements.

- For Stafford Loans and PLUS Loans, proceeds must be disbursed in two or more installments, regardless of the amount of the loan or the length of the enrollment period for which the loan is made. No disbursement may exceed half of the loan amount. See Chapter 3 of this reference for more on this requirement.

- Late disbursements of Stafford and PLUS Loans are subject to certain restrictions. See Chapter 3 for more information.

- A Stafford Loan borrower who is entering the first year of an undergraduate program—and who has not previously received a Stafford Loan—may not receive the first installment of loan proceeds until 30 days after the first day of the program of study. See Chapter 3 of this reference for the exception to this rule.

  If the first-time undergraduate borrower's Stafford Loan is disbursed by EFT or by master check, a school may not request the disbursement of the borrower's loan proceeds until the 24th day of the student's period of enrollment.

- A school is required to provide to the appropriate lender—on behalf of each student borrower—a disbursement schedule that meets Stafford Loan and PLUS Loan disbursement requirements. See Chapter 3 of this reference for more information.

- Each school participating in SFA programs is required to have a fair and equitable refund policy.

Unless a school's refund policy is more stringent, the school must at least provide students with pro rata refunds if the students are attending the school for the first time and do not complete 60 percent of the period of enrollment for which the students have been charged. Pro rata refund calculations are explained in the *SFA Handbook: Institutional Eligibility and Participation.*

Questions about the default reduction initiatives that are not answered in this chapter may be directed to

U.S. Department of Education
Default Management Division
Portals Building, Room 6300
400 Maryland Avenue, SW
Washington, DC 20202-5353

202/708-9396 or 202/708-6048
e-mail: OSFA_IPOS_Default_Management_Division@ed.gov

Counseling Students

CHAPTER 10

Both entrance and exit counseling are requirements of the William D. Ford Federal Direct Loan (Direct Loan) and Federal Family Education Loan (FFEL) programs. The Higher Education Amendments of 1998 specified that exit counseling, also authorized under the law, is no longer required to be in-person counseling. Effective loan counseling is an ongoing process, and reinforcement of points made during the entrance interview is advisable whenever a financial aid administrator meets with a student to discuss his or her loans.

Initial Counseling Requirements Cites
34 CFR 685.304(a); 34 CFR 682.604(f)

The financial aid administrator has an opportunity during each delivery of loan proceeds to counsel students concerning satisfactory academic progress, constraints on aid, the obligation to notify his or her lender about a change in address, and so on. If loan counseling is ongoing, the exit interview is simply a review of information conveyed during the course of the student's program of study and a means of presenting additional material to prepare the student for repaying loans. A school must also keep documentation in each student borrower's file showing that both entrance and exit counseling were provided to him or her.

Dynamic presentation of material at both entrance and exit interviews—using charts, handouts, audiovisual materials, and question-and-answer sessions—can convey the financial aid administrator's message with greatest effect. The financial aid administrator may wish to contact guaranty agencies, lenders, and other organizations associated with postsecondary education to see what videos, pamphlets, and other materials are available to supplement the school's counseling. The Direct Loan program also offers entrance and exit counseling guides as well as companion videos for counselors and borrowers. A Direct Loan school annually receives an order form for these materials.

The illustration on page 120 summarizes information to be covered during the entrance and exit interviews or counseling sessions. The core items should be covered as part of both entrance and exit counseling.

ENTRANCE COUNSELING

A school must conduct "initial" or entrance counseling before releasing the first disbursement of the first Federal Stafford Loan made to a borrower. The counseling must be conducted in person, by audiovisual presentation, or by computer-assisted technology, and a person knowledgeable about Student Financial Assistance (SFA) programs must be available for questions shortly after the counseling session.

For a borrower who is receiving his or her first loan at a school and who is involved in the school's junior-year-abroad program or other off-campus program, the school must provide entrance counseling information by mail before releasing loan proceeds. A correspondence school must also provide the information by mail before releasing loan proceeds.

Recognizing that each school and each student's situation is different, the Department provides the following suggestions for presentation of the required information. The emphasis may be shifted, but all the points made below should be covered during entrance counseling:

- **An overview of all possible sources of aid is important.** The constraints on student aid and a discussion of "reasonable expenses" in the context of grants and loans should be emphasized. A school's Program Participation Agreement (PPA) requires it to provide, in addition to state grant assistance information, a source of information for programs in the student's home state. Information on other loan sources, such as health professions loans, also should be provided.

- **Terms and conditions of various loan programs should be reviewed.** In addition to providing basic information on loan limits, loan fees, and interest rates, a counselor should explain terms such as deferment, forbearance, and cancellation. The counselor might also cover available repayment options, such as loan consolidation and refinancing, at this point. (See Chapter 8 of this reference for a brief discussion of loan consolidation and refinancing.)

- **The loan application process should be explained.** You should advise the student to read carefully the loan application, the disclosure statement, and the promissory note with the borrower's rights and responsibilities before signing any of those documents. Often a student loan is the borrower's first experience in obtaining a loan of any kind, and a counselor should clearly explain basic loan terminology to ensure that a borrower is aware of his or her obligations. The counselor should define terms such as "loan servicer" and should explain the process of selling loans to other lenders or to "secondary markets." Lenders and guaranty agencies provide explanations about these and other terms in the material they make available to students and schools. (A loan servicer is a corporation that administers and collects loan payments for the loan holder. A secondary market is a lender or a private or public agency that specializes in buying student loans.)

- **The obligations regarding repayment should be thoroughly covered.** A counselor should explain that the **exact** repayment schedule will not be provided until loan repayment begins. Although the disclosure statement and the promissory note contain the total dollar amount of the loan, including interest and fees, they do not necessarily specify the amount of each payment or the frequency with which payments will be made. The counselor should remind the student that certain fees will be subtracted from the loan amount before the loan is disbursed but that repayment of the **full** loan amount is required. The counselor should emphasize that the borrower is required to repay the full loan even if he or she does not complete the program or even if the program doesn't meet the borrower's expectations. This is one point at which the school's refund policy could be explained in detail so that a student knows that if he or she leaves school (for whatever reason), a portion of the loan disbursement may be returned to the U.S. Department of Education (the Department) or lender.

- **It is the student's obligation to keep the lender informed about changes in his or her status, enrollment, or financial condition.** The student or parent borrower is required to inform the lender if the student

  Δ fails to enroll in school for the period for which the loan was intended;

  Δ changes schools;

  Δ changes his or her name or address (including changes in the permanent address while in school);

  Δ graduates or withdraws from school;

  Δ wishes to apply for a deferment;

  Δ wishes to request forbearance; or

  Δ is having difficulty repaying the loan.

- **It is the student's obligation to maintain satisfactory academic progress.** See the *SFA Handbook: Student Eligibility* for more information.

- **Personal financial planning should be emphasized.** A student should ask himself or herself questions like "Can I handle Work-Study and still keep my grades up?" "Can I afford loan payments when I graduate if I major in _____?" Financial planning forces the student to consider whether he or she is ready to handle the loan burden. If not presented previously, charts should be shown illustrating the monthly repayment for various loan amounts. The counselor should explain the consequences of multiple borrowing, along with general information on average loan indebtedness. The student also should consider total loan indebtedness as the result of borrowing under more than one loan program over a long period of time—for example, as an undergraduate and a graduate student. At this point, information on loan consolidation—such as considerations for long-range financial planning—might be covered.

- **A student should keep a copy of each document concerning education loans and any other student aid received.** This would be a good time, if the financial aid administrator has the resources, to provide a student with a folder or other aids to encourage him or her to keep all financial aid materials in one place. The student should keep, at a minimum, the following records:

  Δ a copy of the loan application;

  Δ a copy of the promissory note and the loan disclosure statement;

  Δ a record of any loan checks received;

  Δ the loan repayment schedule, sent to the borrower when repayment begins;

  Δ a copy of any written requests for deferment or forbearance, and of any other correspondence with the lender;

  Δ a record of payments made by the borrower—including canceled checks and money order receipts; and

  Δ the most recent name and address of the lender, the loan servicer, and the guarantor of the loan.

- **Borrower rights and responsibilities should be explained.** This could be a part of the discussion on obligations of loan repayment or could be treated separately. While many borrower rights and responsibilities will be covered in the course of the presentation, it's important to review them as a unit at some point.

  The borrower has a right to

  Δ written information on loan obligations, including loan consolidation and information on borrower rights and responsibilities;

  Δ an explanation of default and its consequences;

  Δ a copy of the promissory note and return of the note when the loan is paid in full;

  Δ before repayment, information on interest rates, fees, the balance owed on loans, and a loan repayment schedule;

  Δ notification, if the borrower is in the grace period or in repayment, no later than 45 days after a lender assigns, sells, or transfers his or her Stafford Loan or Federal PLUS Loan to another lender, if the result is a change in the party (new holder or servicer of the loan) to whom payments must be sent. The borrower must be provided the following information:

◊ the identity of the purchasing lender and the name and address of the new lender or servicer;

◊ notice of the loan assignment; and

◊ the telephone number of both the purchasing and selling lenders and servicers.

Notification of this change must be made either jointly or separately by the purchasing and selling lenders. If a borrower is in a grace period or in repayment, the last school the borrower attended may request the following from the guaranty agency before the beginning of the repayment period: notification of the sale, transfer, or assignment of the loan to another holder, and the address and telephone number of the new loan holder.

Δ federal interest benefits, if qualified;

Δ a grace period, if applicable, and an explanation of what that means;

Δ prepayment of the loan without penalty;

Δ a deferment, if the borrower qualifies; and

Δ request forbearance (but the lender may not grant it).

The financial aid administrator must provide current and prospective students with the completion and graduation rates of full-time undergraduate students enrolled in certificate or degree programs at the school.

The borrower is required to

Δ repay the loan according to the repayment schedule and notify the lender of anything that affects ability to repay or eligibility for deferment or cancellation;

Δ notify the lender if he or she graduates, withdraws from school, drops below half-time status, transfers to another school, or changes name, address, or Social Security Number;

Δ notify the lender if he or she fails to enroll for the period covered by the loan;

Exit Counseling Requirements Cites
34 CFR 685.304(b); 34 CFR 682.604(g)

Δ notify the school of a change of address; and

Δ attend an exit interview before leaving school.

- **Emphasize to students the consequences of delinquency and default.** A counselor should stress that once a student is in default, there is little that can be negotiated with regard to repayment. For example, a defaulter is no longer eligible for any deferment provisions, even if he or she would otherwise qualify. Defaulters often find that repayment schedules for loans that have been accelerated are more stringent than the original repayment schedule. Moreover, a defaulter will likely be subject to an adverse credit report, wage garnishment, and/or litigation.

Again, please note that a person knowledgeable of SFA programs must be available to answer the student's questions—either in person or on the telephone—immediately or shortly after the entrance counseling session.

Borrowers should be told the financial aid office is there to help if they have questions about their loans. In addition, borrowers should be informed they can also get help by calling the Direct Loan Servicing Center, their lender, or their guaranty agency.

Because many students leave school before the scheduled end of their academic programs, aid administrators should emphasize during entrance counseling that borrowers are obligated to attend exit counseling before they cease to be enrolled **at least half time**.

EXIT COUNSELING

Amendments of 1998

As of October 1, 1998, a school can conduct exit counseling either in person individually or in groups, or by electronic means, shortly before a borrower ceases at-least-half-time study. One of a borrower's obligations is to participate in an exit counseling session. If the borrower drops out without notifying the school, the financial aid administrator must mail exit counseling material to the borrower at his or her last known address within 30 days after learning that the borrower has left school or failed to attend an exit counseling session. For correspondence programs, the financial aid administrator must send the borrower written counseling materials within 30 days after the borrower completes the program. The financial aid administrator must request the return to the school of information required under the Higher Education Amendments of 1992.

A school mailing these exit materials is not required to use certified mail with a return receipt requested. The school must, however, maintain in each borrower's file documentation verifying the school's compliance with the Department's counseling requirements.

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If a borrower fails to provide the information, the school is not required to take any further action. As with entrance counseling, if the school is complying with the required default reduction measures, testing of information presented must be part of the exit counseling process.

During exit counseling, the financial aid administrator must obtain the borrower's expected permanent address after leaving school, the name and address of the borrower's expected employer, and the address of the borrower's next of kin. A school must correct its records to reflect any changes in a borrower's name, address, Social Security Number, or references, and it must obtain the borrower's current driver's license number. Within 60 days after the exit interview, the financial aid administrator must provide the guarantor (indicated in the borrower's student aid records) with any updated information he or she receives from the borrower.

As the entrance and exit counseling illustration indicates above, much of the material presented at the entrance counseling session will again be presented during exit counseling. The emphasis for exit counseling shifts, however, to loan repayment obligations and debt-management strategies. At the exit counseling session, the following points should be stressed:

- **Financial planning for loan repayment is essential to debt management.** A counselor should stress the importance of developing a realistic budget based on the student's minimum salary requirements. He or she should also emphasize that the loan payment is a fixed cost, like rent or utilities. Data on average anticipated monthly payments are useful, especially if students have not yet received loan repayment schedules.

- **Loan repayment obligations should be reviewed**. Emphasis should be placed on keeping the Direct Loan Servicing Center (DLSC) or lender informed if the borrower is having difficulty in making loan payments. A counselor should stress the importance of communicating with the DLSC or lender in writing and of keeping copies of all communication with the DLSC or lender. The counselor should remind the borrower that he or she must make payments on his or her loans even if the borrower does not receive a payment booklet or a billing notice. The DLSC or lender sends payment coupons or billing statements as a convenience for the borrower. Not receiving them does **not** relieve the borrower of his or her obligation to make payments.

- **Loan refinancing and loan consolidation should be explained.** A student should be referred to his or her DLSC or lender for more detailed information about these options. Chapter 8 of this reference provides basic information on refinancing and loan consolidation.

Entrance and Exit Counseling Requirements

Entrance Counseling

- Explore all sources of aid
- Stress constraints on aid
- Urge students to read and save all loan documents
- Review requirements for satisfactory academic progress
- Review school's refund policy
- Explain sale and servicing of loans

Core Items

- Remind students to keep lender informed
- Review loan terms and conditions
- Review student rights and responsibilities
- Review available repayment options
- Review deferment, forbearance, and cancellation options
- Review consequences of delinquency and default
- Loan repayment required even if program is not completed or does not meet borrower's expectations
- Counsel on personal financial planning

Exit Counseling

- Review loan repayment obligations
- Provide data on average monthly repayment
- Provide information on debt management strategies
- Provide name and address of borrower's lender
- Verify school record of borrower's name, address, SSN, references, and driver's license number

- **Review deferment, forbearance, and cancellation provisions.** A counselor should remind students that these provisions require action on their part; a borrower must apply to the DLSC or lender for deferment, forbearance, or loan cancellation, by using appropriate forms the DLSC or lender provides. The counselor should emphasize that while waiting for approval of the request for any of these conditions, the borrower should continue to make payments on the loan to avoid delinquency and default.

- **Emphasize the consequences of delinquency and default, and the importance of keeping the lender informed** of changes in status, in address, or of problems when the borrower is having difficulty making loan payments.

- **Obtain from each borrower a permanent address, address of the borrower's next of kin, and the name and address of the borrower's expected employer, if possible.** As indicated earlier, within 60 days after an exit interview a school must provide the Direct Loan Servicing Center or guaranty agency indicated in the borrower's student aid records with the borrower's name, latest known address, employer, and employer address.

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Additional School Requirements

CHAPTER 11

The U.S. Department of Education's (the Department's) General Provisions regulations cover requirements for school and student participation in the federal student aid programs. Several requirements specific to the Stafford Loan programs are discussed in this chapter.

REFUNDS

General Provisions Cite
34 CFR Part 668

The *SFA Handbook: Institutional Eligibility and Participation* provides a general discussion of refunds and refund policies. Note that the refund policy information in that reference, of course, extends to a parent who receives a Federal PLUS Loan on behalf of a dependent student who does not enroll for the academic period for which the loan was intended, or who does not complete the academic period for which the loan was made.

In the case where a school makes a refund to a student via the Department (for a Direct Loan) or the lender (for an FFEL), the school must make the refund within 60 days after the student's official withdrawal date. If a student drops out, the school must pay the refund within 60 days of the earliest of the following three dates:

- the date the student dropped out according to the school;
- the last day of the academic term in which the student withdrew; or
- the last day of the period of enrollment for which the student has been charged.

For a student who does not return to school following an approved leave of absence, any refund due must be paid within 30 days of whichever of the following dates is earlier:

- the expiration of the leave of absence; or
- the student's date of notification that he or she will not be returning to the institution after the leave of absence expires.

If the student was on an unapproved leave of absence, the refund must be made within 60 days of the student's last recorded date of class attendance.

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All refunds must be sent directly to the Department or the lender—they must not be given to the student or parent.

When a school makes a refund to a lender, the school must notify the student in writing and—if the borrower is the student's parent—the school must also notify the parent.

EXCHANGE OF INFORMATION REQUIREMENTS

A school is required to inform a lender or guaranty agency within 30 days of discovery of any change in a Stafford Loan borrower's permanent address. The school also must (on request) provide a lender or guaranty agency with the borrower's name and address, and if possible, the employer's name and address. Within 60 days after the exit interview, the school must provide the guaranty agency that was listed in the borrower's student aid records with updated information about

- the borrower's future permanent address;
- the borrower's Social Security Number;
- the identity and address of the borrower's expected employer;
- the address of the borrower's next of kin; and
- the borrower's driver's license number.

To promote loan repayment, a school may make agreements to provide the holders of delinquent loans of current or former students with information about the delinquent borrower's location or employment. The school may also try to contact the borrower and counsel him or her to avoid default.

The Department or lender must provide a school with the name and Social Security Number of the student for whom a parent is borrowing a PLUS Loan. If an FFEL lender has requested preclaims assistance from a guaranty agency, the guaranty agency (rather than the lender) must provide the school at which the borrower obtained a loan with the borrower's name, address, and Social Security Number. The guaranty agency may charge the school a reasonable fee for this service. The school may only use the information to remind the borrower to repay his or her loan(s).

At the request of a school, a guaranty agency must provide, without charge, information about students enrolled at the school if such students are in default on FFELs. The guaranty agency must also provide the school, on request, with the notice of sale, transfer, or assignment of the loan to another holder, as well as the address and telephone number of the new loan holder. This requirement must be met prior to the beginning of the loan repayment period but only applies if a borrower is in the grace period or is in repayment.

RECORDKEEPING, AUDITS, AND REPORTS

Record retention and examination requirements have been standardized for all student financial assistance (SFA) programs and are set forth in the November 27, 1996 Student Assistance General Provisions Final Rule. *The SFA Handbook: Institutional Eligibility and Participation* provides detailed information on these subjects. Several highlights of those requirements are discussed here.

A school must keep records relating to a student or parent borrower's eligibility and participation in the Direct Loan or FFEL program for three years after the end of the award year in which the student last attended the institution. A school must keep all other records relating to the school's participation in the Direct Loan or FFEL program, including the Program Participation Agreement, for three years after the end of the award year in which the records are submitted.

The following is a list of some examples of the types of student loan records that a school must maintain:

- the name of the borrower and a copy of the promissory note or loan application (if the borrower is a parent, the name of the student on whose behalf the PLUS Loan was made);
- the data used to determine the borrower's eligibility for SFA funds;
- the amount of the loan, its payment period, its loan period, (if appropriate), the calculations used to determine the loan amount, and the date and amount of each loan disbursement;
- for subsidized Stafford Loans, the data used to determine the student's EFC;
- the name and address of the Direct Loan Servicing Center or lender;
- financial assistance that was available to the student and used in determining estimated financial assistance (EFA) for the loan period;
- the data used to construct an individual student's budget or the school's itemized standard budget used in calculating the student's estimated cost of attendance (COA);
- the amount of the student's tuition and fees for the loan period, the date the student paid the tuition and fees, the date the school endorsed the loan check, and the date the loan check was received and delivered to the student;

- the amount and basis for calculation of any refund paid to or on behalf of the student; and
- documentation of the student's Federal Pell Grant eligibility or ineligibility (for Stafford Loan borrowers and PLUS Loans with late disbursements).

A school may keep these required records in hard copy or in microform, computer files, optical disk, CD-ROM, or other media formats. All record information must be retrievable in a coherent hard copy format or in other media formats acceptable to the Department.

If a school is a lender and the holder of a promissory note, the school must also retain the original note. Every two years, an independent certified public accountant must audit the school; the audit must cover the period of time since the previous audit. A school must agree to allow the Department or a guaranty agency to audit the school's records periodically to verify compliance with SFA regulations.

Schools are required to comply with Student Status Confirmation Report (SSCR) requirements. Schools complete and return these reports to the Department at least semiannually. The reports inform the Department of the address and enrollment status of students who borrowed subsidized and unsubsidized Stafford Loans and of students whose parents borrowed PLUS Loans on their behalf. Schools must complete and return an SSCR to the Department within 30 days of receiving it.

Schools must report to the Department if the student

- has ceased to be enrolled **at least half time**;
- was accepted for enrollment at the school but did not enroll on at least a half-time basis for the period for which the loan was intended; or
- has changed her or his permanent address.

If a school does not expect to submit an SSCR within 60 days of becoming aware that any of the above information has changed for any student, the school must inform the Department within 30 days of becoming aware of the change. For complete information, see the *NSLDS Student Status Confirmation Report (SSCR) Guide.*

An FFEL school that is fully operational in reporting SSCR data to the NSLDS is exempt from the requirement to provide SSCRs directly to guaranty agencies. However, the school must still respond to requests for borrower information from guaranty agencies, lenders, and loan servicers. The school must continue to provide loan holders and loan servicers with a borrower's enrollment status, enrollment history, or information needed to locate the borrower for deferment and other repayment purposes. This information includes last known address, change in surname, and employer's name and address.

A student authorizes his or her school to release information to lenders by signing a statement as part of the loan application process. This authorization covers information relevant to the student's or parent's eligibility to borrow. Examples of such information are enrollment status, financial assistance, and employment records.

FFEL Processing Requirements Cite
34 CFR 682.604

FFEL SCHOOL AUDIT REQUIREMENTS

A school with a default rate above 20 percent is required to undergo a biennial on-site guaranty agency review of its FFEL Programs, unless the school is operating under an approved default management plan or unless the school's default rate is based on loans entering repayment totaling less than $100,000 in a given year.

More information is provided in the *Audit Guide: Audits of Student Financial Assistance Programs*. Compliance audits must be conducted by an independent auditor in accordance with the U.S. General Accounting Office's (GAO's) Government Accounting Standards. The *Audit Guide* sets forth general accounting standards and the standards specifically for compliance audits.

These are some of the FFEL-specific requirements that are subject to audit:

- A school must determine student eligibility. In the case of a PLUS Loan, the financial aid administrator must also determine whether the parent is eligible to borrow on behalf of an eligible dependent student. Auditing of the determination of Pell Grant eligibility for undergraduate Stafford Loan borrowers is also required.

- A school must complete portions of the loan application regarding student eligibility, the student's estimated COA, the student's EFA, and, if applicable, the EFC. The school also must meet the loan certification and other requirements.

- A school must follow prescribed procedures in the FFEL Program regulations for handling loan proceeds. These procedures vary depending on whether the student does or does not enroll and on whether the proceeds are payable to the student only or jointly to the student and to the school.

- When a school becomes aware that: (1) a student with a deferment no longer meets the conditions for an in-school deferment, (2) a student who received a loan or for whom a PLUS Loan was received failed to enroll **at least half time** for the period for which the loan was intended or was otherwise ineligible for the loan, or (3) a student's permanent address has changed, such information must immediately be reported to the lender or the guaranty agency.

- A school must establish adequate entrance and exit counseling procedures.

PROGRAM PARTICIPATION AGREEMENT REQUIREMENTS

The SFA Handbook: Institutional Eligibility and Participation provides detailed information on the Program Participation Agreement (PPA). Provided here is loan-specific information about the PPA. A school's PPA requires that

- a school beginning participation in the Direct Loan or FFEL Programs after a change of ownership or a change in the school's status must develop a Default Management Plan for approval by the Department and must maintain the plan for two years after certification;

- a school may not penalize the student if the student is unable to pay costs of attendance owed the school because of a delay in delivery of Stafford Loan proceeds and the delay is the fault of the school or is a result of adhering to SFA program requirements;

- a school provide students with recent data on employment and graduation statistics when advertising job-placement rates to recruit students;

- a school inform enrolled eligible borrowers of the availability of state grant assistance from the state in which the school is located, and provide a source of information for programs in the home state of the eligible borrower; and

- a school certify the availability of a drug abuse prevention program for officers, employees, and students of the school.

The PPA (as well as program regulations) also prohibits schools from charging students fees for processing applications or data required to determine eligibility for SFA Programs or for processing Direct Loan or FFEL Program deferment forms and prohibits the certification of loans in excess of the student's eligibility.

PROHIBITED SCHOOL AND LENDER ACTIVITY

Amendments of 1998

As of October 1, 1998, guaranty agencies, lenders, and other participants in the FFEL Program can provide schools with the same kind of assistance the Department provides. However, lenders and guaranty agencies are forbidden to mail unsolicited loan application forms to students enrolled in secondary or postsecondary schools, unless the prospective borrower has previously received loans guaranteed by that agency.

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Appendix A:

Client Account Manager Directory

Client Account Manager Directory

	Address and Telephone	*States Served*
Region I	10 Causeway Street 3rd. Floor - Room 341 Boston, Massachusetts 02222 617-565-6911	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont
Region II	75 Park Place, 12th Floor New York, New York 10007 212-264-8012	New Jersey, New York, Puerto Rico, and the Virgin Islands
Region III	3535 Market Street, Room 2304 Philadelphia, Pennsylvania 19104 215-596-1716	Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, and West Virginia
Region IV	61 Forsyth Street, SW, Room 18T20-A Atlanta, Georgia 30303 404-562-6259	Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, and Tennessee
Region V	111 North Canal Street, Room 830 Chicago, Illinois 60606-7206 312-886-8766	Illinois, Indiana, Michigan, Ohio, and Wisconsin
Region VI	1999 Bryan Street Suite 2735 Dallas, Texas 75201	Arkansas, Louisiana, New Mexico, Oklahoma, and Texas
Region VII	7505 Tiffany Springs Parkway, Suite 500 Kansas City, Missouri 64153-1367 816-880-4090	Iowa, Kansas, Missouri, and Nebraska
Region VIII	1391 N. Speer Boulevard, Suite 800-A Denver, Colorado 80204-2512 303-844-3677	Colorado, Minnesota, Montana, North Dakota, South Dakota, Utah, and
Region IX	50 United Nations Plaza, Room 121 San Francisco, California 94102-4987 415-437-8843	Arizona, California, Hawaii, Nevada, American Samoa, Guam, Republic of Palau, Republic of the Marshall Islands, the Northern Marianas, and the Federated States of Micronesia
Region X	1000 Second Avenue, Suite 1200 Seattle, Washington 98104-1023 206-287-9840	Alaska, Idaho, Oregon, and Washington

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Appendix B:

Guaranty Agency Directory

Guaranty Agency Directory

ALABAMA
Kentucky Higher Education Assistance Authority
1050 U.S. 127 South
West Frankfort Office Complex
Frankfort, Kentucky 40601-4323
502/692-7200
800/928-8926
http://www.kheaa.com

ALASKA (FEDERAL LOANS)
USA Funds, Inc.
P.O. Box 6180
Indianapolis, IN 46206-6180
317/849-6510
800/382-4506
http://www.usagroup.com

ALASKA (STATE LOANS)
Alaska Commission on Postsecondary Education
Alaska Student Loan Corporation
3030 Vintage Boulevard
Juneau, Alaska 99801-7109
907/465-2962
http://www.usagroup.com

ARIZONA
USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180
317/849-6510
800/382-4506
http://www.usagroup.com

ARKANSAS
Student Loan Guarantee Foundation of Arkansas
219 South Victory Street
Little Rock, Arkansas 72201-1884
501/372-1491
800/622-3446
http://www.slgfa.org

CALIFORNIA
California Student Aid Commission
P.O. Box 419032
Rancho Cordova, CA 95741
916/445-0880
800/367-1589 (defaulted loans)
916/322-9277 (billing problems)
http://www.edfund.org

COLORADO
Colorado Student Loan Program
Suite 425
999 18th Street
Denver, Colorado 80202-2471
303/294-5050
800/727-9834
http://www.cslp.org

CONNECTICUT
Connecticut Student Loan Foundation
P.O. Box 1009
Rocky Hill, Connecticut 06067
860/257-4001
800/237-9721
http://www.cslf.com

DELAWARE
Pennsylvania Higher Education Assistance Agency
1200 North 7th Street
Harrisburg, PA 17102-1444
717/720-2850
800/692-7392
http://www.pheaa.org

DISTRICT OF COLUMBIA
American Student Assistance
P.O. Box 9154
Boston, Massachusetts 02205-9154
617/426-9434
800/999-9080
http://www.amsa.com

FLORIDA
Florida Department of Education
Office of Student Financial Assistance
325 West Gaines Street
Collins Building, Room 255
Tallahassee, Florida 32399-0400

850/488-4095
800/366-3475 (loans)
http://www.firn.edu/doe/bin00065

GEORGIA
Georgia Higher Education Assistance Corporation
Suite 200
2082 East Exchange Place
Tucker, Georgia 30084

770/414-3000
800/776-6878
http://www.gsfc.org

HAWAII
USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180

317/849-6510
800/382-4506
800/428-9250
http://www.usagroup.com

IDAHO
Northwest Education Loan Association
500 Coleman Building
811 First Avenue
Seattle, Washington 98104

206/461-5300
800/562-3001
http://www.nela.net

ILLINOIS
Illinois Student Assistance Commission
1755 Lake Cook Road
Deerfield, Illinois 60015

847/948-8500
800/477-4411 (preclaims)
800/934-3572 (defaulted loans)
http://www.isac1.org

INDIANA
USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180

317/849-6510
800/824-7044
800/428-9250
http://www.usagroup.com

IOWA
Iowa College Student Aid Commission
200 10th St., 4th floor
Des Moines, Iowa 50309-3609

515/281-3501
800/383-4222
http://www.state.ia.us/government/icsac

KANSAS
USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180

317/849-6510
800/824-7044
800/428-9250
http://www.usagroup.com

KENTUCKY
Kentucky Higher Education Assistance Authority
1050 U.S. 127 South
West Frankfort Office Complex
Frankfort, Kentucky 40601-4323

502/564-7990
800/928-8926
http://www.kheaa.com

LOUISIANA
Louisiana Office of Student Financial Assistance
P.O. Box 91202
Baton Rouge, Louisiana 70821-9202

225/922-1012
800/259-5626
http://www.osfa.state.la.us

MAINE
Finance Authority of Maine
1 Weston Court
State House Station 119
Augusta, Maine 04333
207/626-8200
800/228-3734 (in Maine)
http://www.usagroup.com

MARYLAND
USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180
317/849-6510
800/824-7044
800/428-9250
http://www.usagroup.com

MASSACHUSETTS
American Student Assistance
330 Stuart Street
Boston, Massachusetts 02116-5292
617/426-9434
800/999-9080
http://www.amsa.com

MICHIGAN
Michigan Higher Education Assistance Authority
P.O. Box 30047
Lansing, Michigan 48909
517/373-0760
800/642-5626
http://state.mi.us

MINNESOTA
Great Lakes Higher Education Corporation
P.O. Box 7859
Madison, Wisconsin 53707
608/246-1800
800/236-4300
800/354-6980 (defaulted loans)
http://www.glhec.org

MISSISSIPPI
USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180
317/849-6510
800/824-7044
800/428-9250
http://www.usagroup.com

MISSOURI
Coordinating Board for Higher Education
3515 Amazonas Drive
Jefferson City, Missouri 65109-5717
573/751-2361
800/473-6757 (in Missouri)
http://www.mocbhe.gov

MONTANA
Montana Guaranteed Student Loan Program
P.O. Box 203101
Helena, Montana 59620-3101
406/444-6594
800/537-7508
800/322-3086 (defaulted loans)
http://www.mgslp.state.mt.us

NEBRASKA
Nebraska Student Loan Program
P.O. Box 82507
Lincoln, Nebraska 68501-2507
402/475-8686
800/735-8778
http://www.nslp.org

NEVADA
USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180
317/849-6510
800/382-4506
800/428-9250
http://www.usagroup.com

NEW HAMPSHIRE
New Hampshire Higher Education Assistance Foundation
P.O. Box 877
Concord, New Hampshire 03302-0877
603/225-6612
800/525-2577
http://www.nhheaf.org

NEW JERSEY
New Jersey Higher Education Assistance Authority
4 Quakerbridge Plaza CN540
Trenton, New Jersey 08625
609/588-3200
800/792-8670
http://www.state.nj.us/treasury/osa

NEW MEXICO
New Mexico Student Loan Guarantee Corporation
P.O. Box 25136
Albuquerque, New Mexico 87125
505/345-3371
800/279-3070
http://www.nmslgc.org

NEW YORK
New York State Higher Education Services Corporation
99 Washington Avenue
Albany, New York 12255
888/697-4372
800/642-6234
http://www.hesc.state.ny.us

NORTH CAROLINA
North Carolina State Education Assistance Authority
P.O. Box 14103
Research Triangle Park, North Carolina 27709
919/549-8614
http://www.ncseaa.edu

NORTH DAKOTA
Student Loans of North Dakota Guarantor
P.O. Box 5524
Bismark, North Dakota 58506-5524
701/328-5662
800/472-2166
http://www.banknd.com/slnd

OHIO
Great Lakes Higher Education Corporation
P.O. Box 7858
Madison, Wisconsin 53707
608/246-1800
800/236-4300
800/944-0904 (defaulted loans)
http://www.glhec.org

OKLAHOMA
Oklahoma Guaranteed Student Loan Program
P.O. Box 3000
Oklahoma City, Oklahoma 73101-3000
800/247-0420
http://www.ogslp.org

OREGON
Oregon State Scholarship Commission
Suite 100
1500 Valley River Drive
Eugene, Oregon 97401
541/687-7400
800/452-8807
http://www.ossc.state.or.us

PENNSYLVANIA
Pennsylvania Higher Education Assistance Agency
1200 North 7th Street
Harrisburg, Pennsylvania 17102-1444
717/720-2860
800/692-7392
http://www/pheaa.org

RHODE ISLAND
Rhode Island Higher Education
Assistance Authority
560 Jefferson Boulevard
Warwick, Rhode Island 02886-1320
401/736-1100
800/922-9855
http://www.riheaa.org

SOUTH CAROLINA
South Carolina State Education
Assistance Authority
Suite 210
Interstate Center
P.O. Box 210219
Columbia, South Carolina 29221
803/798-0916
800/347-2752
http://www.slc.sc.edu

SOUTH DAKOTA
Education Assistance Corporation
115 First Avenue, S.W.
Aberdeen, South Dakota 57401
605/225-6423
800/592-1802
http://www.eac-easci.org

TENNESSEE
Tennessee Student Assistance Corporation
404 James Robertson Parkway
Suite 1950
Parkway Towers
Nashville, Tennessee 37243-0820
615/741-1346
800/342-1663 (in Tennessee)
800/447-1523 (in Tennessee)
800/257-6526 (outside Tennessee)
http://www.state.tn.us/tsac

TEXAS
Texas Guaranteed Student Loan Corporation
P.O. Box 201725
Austin, Texas 78720-1725
512/219-5700
800/252-9743
http://tgslc.org/tgslc

UTAH
Utah Higher Education Assistance Authority
P.O. Box 45202
Salt Lake City, Utah 84145-0202
801/321-7200
800/418-8757
http://www.uheaa.org

VERMONT
Vermont Student Assistance Corporation
P.O. Box 2000
Winooski, Vermont 05404-2601
802/655-9602
800/642-3177 (in Vermont)
http://www.vsac.org

VIRGINIA
Educational Credit Management Corporation
American Bank Building
101 East 5th Street
Suite 2400
St. Paul Minnesota 55101
612/221-0566
http://www.ecmc.org

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WASHINGTON
Northwest Education Loan Association
500 Coleman Building
811 First Avenue
Seattle, Washington 98104
206/461-5300
800/562-3001
http://www.nela.net

WEST VIRGINIA
Pennsylvania Higher Education Assistance Agency
1200 North 7th Street
Harrisburg, Pennsylvania 17102-1444
717/720-2860
800/692-7392
http://www.pheaa.org

WISCONSIN
Great Lakes Higher Education Corporation
P.O. Box 7858
Madison, Wisconsin 53707
608/246-1800
800/236-5900
800/354-6980 (defaulted loans)
http://www.glhec.org

WYOMING
USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180
317/849-6510
800/382-4506
800/428-9250
http://www.usagroup.com

AMERICAN SAMOA
USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180
317/849-6510
800/382-4506
800/428-9250
http://www.usagroup.com

NORTHERN MARIANA ISLANDS
USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180
317/849-6510
800/382-4506
800/428-9250
http://www.usagroup.com

FEDERATED STATES OF MICRONESIA, MARSHALL ISLANDS, REPUBLIC OF PALAU
USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180
317/849-6510
800/382-4506
800/428-9250
http://www.usagroup.com

VIRGIN ISLANDS
Great Lakes Higher Education Corporation
P.O. Box 7858
Madison, Wisconsin 53707
608/246-1800
800/236-5900
800/354-6980 (defaulted loans)
http://www.glhec.org

GUAM
USA Funds, Inc.
P.O. Box 6180
Indianapolis, Indiana 46206-6180
317/849-6510
800/382-4506
800/428-9250
http://www.usagroup.com

PUERTO RICO
Great Lakes Higher Education Corporation
P.O. Box 7858
Madison, Wisconsin 53707
608/246-1800
800/236-5900
800/354-6980 (defaulted loans)
http://www.glhec.org

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